

Document of  
The World Bank

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Report No: PAD933-MX

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$350 MILLION

TO THE

UNITED MEXICAN STATES

FOR A

SOCIAL PROTECTION SYSTEM PROJECT

October 2, 2014

Social Protection and Labor Global Practice  
Mexico and Colombia Country Management Unit  
Latin America and Caribbean Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective August 19, 2014)

Currency Unit = Mexican Pesos  
MXN 13.04960 = US\$1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

|         |  |
|---------|--|
| BANSEFI | <i>Banco del Ahorro Nacional y Servicios Financieros</i> (National Savings and Financial Services Bank)                                  |
| CS      | Conditional Support  |
| CNP     | <i>Coordinación Nacional de PROSPERA</i> (National Coordination of PROSPERA)   |
| CDI     | <i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i> (Indigenous Peoples National Commission)                            |
| CECATI  | <i>Centros de Capacitación Tecnológica Industrial</i> (Technological Industrial Training Centers)  |
| CENEVAL | <i>Centro Nacional de Evaluación para la Educación Superior</i> (National Center for Upper Secondary Education Evaluation)               |
| CNCH    | <i>Crusada Nacional Contra el Hambre</i> (National Crusade Against Hunger)   |
| CNPSS   | <i>Comisión Nacional de Protección Social en Salud</i> (National Commission of Social Protection in Health)                              |
| CONAFE  | <i>Consejo Nacional de Fomento Educativo</i> (National Council for Educational Development)  |
| CONEVAL | <i>Consejo Nacional de Evaluación de la Política de Desarrollo Social</i> (National Council for Evaluation of Social Development Policy) |
| CPC     | <i>Comites de Promoción Comunitaria</i> (Community Promotion Committees)   |
| DGAO    | <i>Dirección General de Atención y Operación</i> (Operations General Directorate)  |
| DGAF    | <i>Dirección General de Administración y Finanzas</i> (Administration and Financial Affairs General Directorate)                         |
| FM      | Financial Management   |
| GDP     | Gross Domestic Product   |
| GoM     | Government of Mexico   |
| IADB    | Inter-American Development Bank  |
| IBRD    | International Bank for Reconstruction and Development  |
| ICAT    | <i>Institutos de Capacitación y Adestramiento para el Trabajo</i> (Job Training Institutes)  |
| ICT     | Information and Communication Technology   |
| IEG     | Independent Evaluation Group   |
| IMSS    | <i>Instituto Mexicano de Seguro Social</i> (Mexican Social Security Institute)   |
| IPP     | Indigenous Peoples Plan  |
| LA      | Legal Agreement  |
| MIS     | Management Information System  |
| NAFIN   | <i>Nacional Financiera, SNC IBD</i> (National Financing Agency)  |
| NDP     | <i>Plan Nacional de Desarrollo</i> (National Development Plan)   |
| OM      | <i>Oficialía Mayor</i> (Finance and Administration Unit within SEDESOL)  |
| PAL     | <i>Programa de Apoyo Alimentario</i> (Food Support Program)  |
| PESA    | <i>Proyecto Estratégico de Seguridad Alimentaria</i> (Strategic Project for Food Security)   |

|          |   |
|----------|---|
| PROSPERA | <i>Programa de Inclusión Social PROSPERA (Social Inclusion Program PROSPERA)</i>  |
| SAGARPA  | <i>Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food)</i> |
| SE       | <i>Secretaría de Economía (Ministry of Economy)</i>   |
| SEDESOL  | <i>Secretaría de Desarrollo Social (Social Development Ministry)</i>  |
| SEP      | <i>Secretaría de Educación Pública (Ministry of Public Education)</i>   |
| SEPA     | <i>Sistema de Ejecución de Planes de Adquisición (Procurement Plan Execution System)</i>  |
| SHCP     | <i>Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)</i>   |
| SICOP    | <i>Sistema de Contabilidad y Presupuesto (Accounting and Budgeting System)</i>  |
| SIS      | <i>Sistema de Información Social (Social Information System)</i>  |
| SNE      | <i>Servicio Nacional de Empleo (National Employment Service)</i>  |
| SS       | <i>Secretaría de Salud (Ministry of Health)</i>   |
| SSPEDR   | <i>Subsecretaría de Planeación, Evaluación y Desarrollo Regional (Viceministry for Planning, Evaluation and Regional Development)</i>                           |
| STPS     | <i>Secretaría de Trabajo y Previsión Social (Ministry of Labor and Social Security)</i>   |
| TESOFE   | <i>Tesorería de la Federación (Federal Treasury)</i>  |

|                                  |                       |
|----------------------------------|-----------------------|
| Regional Vice President:         | Jorge Familiar        |
| Country Director:                | Gerardo M. Corrochano |
| Senior Global Practice Director: | Arup Banerji          |
| Acting Practice Manager:         | Margaret Ellen Grosh  |
| Task Team Leader:                | Francesca Lamanna     |



**MEXICO**  
**Social Protection System Project**

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b>I. STRATEGIC CONTEXT .....</b>                                 | <b>1</b>    |
| A. Country Context.....   | 1           |
| B. Sectorial and Institutional Context.....                       | 3           |
| C. Higher Level Objectives to which the Project Contributes ..... | 5           |
| <b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>                   | <b>5</b>    |
| A. PDO.....   | 5           |
| Project Beneficiaries .....                                       | 6           |
| PDO Level Results Indicators.....                                 | 6           |
| <b>III. PROJECT DESCRIPTION .....</b>                             | <b>6</b>    |
| A. Project Components .....                                       | 6           |
| B. Project Financing .....  | 9           |
| C. Lessons Learned and Reflected in the Project Design.....       | 9           |
| D. Partnership Arrangements.....                                  | 10          |
| <b>IV. IMPLEMENTATION .....</b>                                   | <b>10</b>   |
| A. Institutional and Implementation Arrangements .....            | 10          |
| B. Results Monitoring and Evaluation .....                        | 11          |
| C. Sustainability.....  | 12          |
| <b>V. KEY RISKS AND MITIGATION MEASURES .....</b>                 | <b>12</b>   |
| A. Risk Ratings Summary Table .....                               | 12          |
| B. Overall Risk Rating Explanation .....                          | 12          |
| <b>VI. APPRAISAL SUMMARY .....</b>                                | <b>13</b>   |
| A. Economic and Financial Analysis.....                           | 13          |
| B. Technical.....   | 13          |
| C. Financial Management.....                                      | 14          |
| D. Procurement .....  | 15          |
| E. Social (including Safeguards).....                             | 15          |

|   |           |
|---|-----------|
| F. Environment (including Safeguards) .....                       | 15        |
| <b>Annex 1: Results Framework and Monitoring .....</b>            | <b>16</b> |
| <b>Annex 2: Detailed Project Description.....</b>                 | <b>24</b> |
| <b>Annex 3: Implementation Arrangements .....</b>                 | <b>36</b> |
| <b>Annex 4: Operational Risk Assessment Framework (ORAF).....</b> | <b>48</b> |
| <b>Annex 5: Implementation Support Plan .....</b>                 | <b>53</b> |
| <b>Annex 6: Economic and Financial Analysis .....</b>             | <b>55</b> |

|

# PAD DATA SHEET

*Mexico*

*MX Social Protection System (P147212)*

## PROJECT APPRAISAL DOCUMENT

*LATIN AMERICA AND CARIBBEAN*

*GSPDR*

Report No.: PAD933-MX

| Basic Information                                  |  |                                  |  |
|--|--|----------------------------------|--|
| Project ID<br>P147212                              | EA Category<br>C - Not Required                | Team Leader<br>Francesca Lamanna |  |
| Lending Instrument<br>Investment Project Financing | Fragile and/or Capacity Constraints [ ]        |                                  |  |
|  | Financial Intermediaries [ ]                   |                                  |  |
|  | Series of Projects [ ]                         |                                  |  |
| Project Implementation Start Date<br>15-Jan-2015   | Project Implementation End Date<br>28-Jun-2019 |                                  |  |
| Expected Effectiveness Date<br>15-Dec-2014         | Expected Closing Date<br>28-Jun-2019           |                                  |  |
| Joint IFC<br>No                                    |  |                                  |  |
| Practice<br>Manager/Manager                        | Senior Global Practice<br>Director             | Country Director                 | Regional Vice President  |
| Margaret Ellen Grosh                               | Arup Banerji                                   | Gerardo M. Corrochano            | Jorge Familiar   |
| Borrower: United Mexican States                    |  |                                  |  |
| Responsible Agency: SEDESOL/PROSPERA               |  |                                  |  |
| Contact:   | Victor Valencia de los Santos                  | Title:                           | Director General de Administración y Finanzas  |
| Telephone No.:                                     | 52-55-5482-07000                               | Email:                           | <a href="mailto:victor.valencia@prospera.gob.mx">victor.valencia@prospera.gob.mx</a> |
| Responsible Agency: SEDESOL                        |  |                                  |  |
| Contact:   | Juan Manuel López Arroyo                       | Title:                           | Head, Planning and , International Relations Unit, SEDESOL                           |
| Telephone No.:                                     | 52-55-5328-5000                                | Email:                           | <a href="mailto:juan.lopez@sedesol.gob.mx">juan.lopez@sedesol.gob.mx</a>             |

| <b>Project Financing Data(in USD Million)</b>  |                              |                          |           |                          |                       |                            |        |  |  |  |
|--|------------------------------|--------------------------|-----------|--------------------------|-----------------------|----------------------------|--------|--|--|--|
| <input checked="" type="checkbox"/>  | Loan                         | <input type="checkbox"/> | IDA Grant | <input type="checkbox"/> | Guarantee             |                            |        |  |  |  |
| <input type="checkbox"/>   | Credit                       | <input type="checkbox"/> | Grant     | <input type="checkbox"/> | Other                 |                            |        |  |  |  |
| Total Project Cost:  |                              | 350.00                   |           |                          | Total Bank Financing: |                            | 350.00 |  |  |  |
| Financing Gap:   |                              | 0.00                     |           |                          |                       |                            |        |  |  |  |
| <b>Financing Source</b>  |                              |                          |           |                          |                       | <b>Amount</b>              |        |  |  |  |
| Borrower   |                              |                          |           |                          |                       | 0.00                       |        |  |  |  |
| International Bank for Reconstruction and Development  |                              |                          |           |                          |                       | 350.00                     |        |  |  |  |
| Total  |                              |                          |           |                          |                       | 350.00                     |        |  |  |  |
| <b>Expected Disbursements (in USD Million)</b>   |                              |                          |           |                          |                       |                            |        |  |  |  |
| Fiscal Year  | 2015                         | 2016                     | 2017      | 2018                     | 2019                  |                            |        |  |  |  |
| Annual   | 80.00                        | 100.00                   | 85.00     | 65.00                    | 20.00                 |                            |        |  |  |  |
| Cumulative   | 80.00                        | 180.00                   | 265.00    | 330.00                   | 350.00                |                            |        |  |  |  |
| <b>Proposed Development Objective(s)</b>   |                              |                          |           |                          |                       |                            |        |  |  |  |
| The proposed Project Development Objectives are to support the Government's effort to: (i) increase access of PROSPERA beneficiaries to social and productive programs, and (ii) develop instruments for an integrated social protection system. |                              |                          |           |                          |                       |                            |        |  |  |  |
| <b>Components</b>  |                              |                          |           |                          |                       |                            |        |  |  |  |
| <b>Component Name</b>  |                              |                          |           |                          |                       | <b>Cost (USD Millions)</b> |        |  |  |  |
| Component 1 - Support to the PROSPERA Program and its linkage with social and productive programs  |                              |                          |           |                          |                       | 317.52                     |        |  |  |  |
| Component 2 - Strengthening the Social Protection System   |                              |                          |           |                          |                       | 31.60                      |        |  |  |  |
| <b>Institutional Data</b>  |                              |                          |           |                          |                       |                            |        |  |  |  |
| <b>Practice Area / Cross Cutting Solution Area</b>   |                              |                          |           |                          |                       |                            |        |  |  |  |
| Social Protection & Labor  |                              |                          |           |                          |                       |                            |        |  |  |  |
| <b>Cross Cutting Areas</b>   |                              |                          |           |                          |                       |                            |        |  |  |  |
| <input type="checkbox"/>   | Climate Change               |                          |           |                          |                       |                            |        |  |  |  |
| <input type="checkbox"/>   | Fragile, Conflict & Violence |                          |           |                          |                       |                            |        |  |  |  |
| <input checked="" type="checkbox"/>  | Gender                       |                          |           |                          |                       |                            |        |  |  |  |
| <input type="checkbox"/>   | Jobs                         |                          |           |                          |                       |                            |        |  |  |  |
| <input type="checkbox"/>   | Public Private Partnership   |                          |           |                          |                       |                            |        |  |  |  |



| <b>Sectors / Climate Change</b>   |   |            |                          |                          |
|---|---|------------|--------------------------|--------------------------|
| Sector (Maximum 5 and total % must equal 100)   |   |            |                          |                          |
| Major Sector  | Sector                                      | %          | Adaptation Co-benefits % | Mitigation Co-benefits % |
| Health and other social services  | Other social services                       | 100        |                          |                          |
| Total   |   | 100        |                          |                          |
| <input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project. |   |            |                          |                          |
| <b>Themes</b>   |   |            |                          |                          |
| Theme (Maximum 5 and total % must equal 100)  |   |            |                          |                          |
| Major theme   | Theme                                       | %          |                          |                          |
| Social protection and risk management   | Social safety nets                          | 60         |                          |                          |
| Social protection and risk management   | Other social protection and risk management | 20         |                          |                          |
| Human development   | Other human development                     | 20         |                          |                          |
| Total   |   | 100        |                          |                          |
| <b>Compliance</b>   |   |            |                          |                          |
| <b>Policy</b>   |   |            |                          |                          |
| Does the project depart from the CAS in content or in other significant respects?   |   |            | Yes [ ]                  | No [ X ]                 |
| Does the project require any waivers of Bank policies?  |   |            | Yes [ ]                  | No [ X ]                 |
| Have these been approved by Bank management?  |   |            | Yes [ ]                  | No [ ]                   |
| Is approval for any policy waiver sought from the Board?  |   |            | Yes [ ]                  | No [ X ]                 |
| Does the project meet the Regional criteria for readiness for implementation?   |   |            | Yes [ X ]                | No [ ]                   |
| <b>Safeguard Policies Triggered by the Project</b>  |   | <b>Yes</b> | <b>No</b>                |                          |
| Environmental Assessment OP/BP 4.01   |   |            | <b>X</b>                 |                          |
| Natural Habitats OP/BP 4.04   |   |            | <b>X</b>                 |                          |
| Forests OP/BP 4.36  |   |            | <b>X</b>                 |                          |
| Pest Management OP 4.09   |   |            | <b>X</b>                 |                          |
| Physical Cultural Resources OP/BP 4.11  |   |            | <b>X</b>                 |                          |
| Indigenous Peoples OP/BP 4.10   |   | <b>X</b>   |                          |                          |

|   |                  |                 |                  |
|---|------------------|-----------------|------------------|
| Involuntary Resettlement OP/BP 4.12   |                  |                 | <b>X</b>         |
| Safety of Dams OP/BP 4.37   |                  |                 | <b>X</b>         |
| Projects on International Waterways OP/BP 7.50  |                  |                 | <b>X</b>         |
| Projects in Disputed Areas OP/BP 7.60   |                  |                 | <b>X</b>         |
| <b>Legal Covenants</b>  |                  |                 |                  |
| <b>Name</b>   | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Council - Schedule 2. Section I.A.1(a)  | <b>X</b>         |                 |                  |
| <b>Description of Covenant</b>  |                  |                 |                  |
| The Borrower, through SEDESOL (CNP) shall, under its overall coordination, maintain a council comprised of representatives of SEDESOL, SHCP, SEP, SS, SE, STPS, SAGARPA and CNP responsible of, inter alia, general guidance on the implementation of the PROSPERA Program.   |                  |                 |                  |
| <b>Name</b>   | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Technical Committee - Schedule 2. Section I.A.1(b)  | <b>X</b>         |                 |                  |
| <b>Description of Covenant</b>  |                  |                 |                  |
| The Borrower, through SEDESOL (CNP) shall, under its overall coordination, maintain a technical committee comprised of representatives of SHCP, SEDESOL, SEP, SS, SE, STPS, SAGARPA, IMSS and CNP responsible of, inter alia, providing, supervision, transparent operation and performance review for the PROSPERA Program, including the approval of the Operational Rules. |                  |                 |                  |
| <b>Name</b>   | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| PROSPERA Health and Education Services - Schedule 2. Section I.A.1(c)   | <b>X</b>         |                 |                  |
| <b>Description of Covenant</b>  |                  |                 |                  |
| The Borrower, through SEDESOL (CNP) shall, under its overall coordination, provide the health and education services related to the PROSPERA Program through SEP, SS, and IMSS.   |                  |                 |                  |
| <b>Name</b>   | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| State Level Committees - Schedule 2. Section I.A.1(d)   | <b>X</b>         |                 |                  |
| <b>Description of Covenant</b>  |                  |                 |                  |
| The Borrower, through SEDESOL (CNP) shall, under its overall coordination, maintain State level committees (with the participation of, inter alia, SEDESOL, SEP, SS and IMSS), which will, inter alia, supervise and monitor the implementation of the PROSPERA Program at the State level.   |                  |                 |                  |
| <b>Name</b>   | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Beneficiary Obligations - Schedule 2. Section I.A.2   | <b>X</b>         |                 |                  |

|  |                  |                 |                  |
|--|------------------|-----------------|------------------|
| <b>Description of Covenant</b>   |                  |                 |                  |
| The Borrower, through SEDESOL (CNP), shall ensure that the PROSPERA Beneficiaries comply with the obligations set forth under Section 3.6 ( <i>Derechos, corresponsabilidades, compromisos y suspensiones de las familias beneficiarias</i> ), or its successor thereto satisfactory to the Bank, of the Operational Rules.  |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Contrato de Mandato – Schedule 2. Section I.B.1  | X                |                 |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| The Borrower, through SHCP and SEDESOL (through SSPEDR, OM, and CNP), shall enter into a contract ( <i>Contrato de Mandato</i> ) with NAFIN, satisfactory to the Bank.   |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| BANSEFI Agreement - Schedule 2. Section I.C.1(a)   | X                |                 |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| The Borrower, through SEDESOL (CNP), shall maintain, throughout Project implementation, the BANSEFI Agreement with contents satisfactory to the Bank, whereby BANSEFI, shall agree to distribute the PROSPERA Conditional Support to the PROSPERA Beneficiaries.   |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Payment Agent Agreement - Schedule 2. Section I.C.2(a)   | X                |                 |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| To carry out Part 1(a) of the Project, and prior to the distribution of PROSPERA Conditional Support to the PROSPERA Beneficiaries by each Payment Agent, the Borrower, through SEDESOL (CNP), shall ensure that BANSEFI shall have entered into a separate agreement with said Payment Agent (the Payment Agent Agreement), with contents satisfactory to the Bank. |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Operational Manual - Schedule 2. Section I.D.1   | X                |                 |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| The Borrower, through SEDESOL (through SSPEDR, OM and CNP) shall carry out the Project in accordance with the provisions of a manual (the Operational Manual) satisfactory to the Bank.  |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Anti-Corruption Investigation - Schedule 2. Section I.E.1(a)   | X                |                 |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| The Borrower, through SEDESOL (CNP) or any other entity as the Borrower may deem appropriate, shall, inter alia, ensure compliance with the Anti-Corruption Guidelines by requiring BANSEFI, to take appropriate measures to prevent, inform on, respond to and investigate corrupt, fraudulent, collusive,  |                  |                 |                  |

coercive and obstructive practices with respect to their payment of PROSPERA Conditional Support.

| Name  | Recurrent | Due Date | Frequency |
|---|-----------|----------|-----------|
| Anti-Corruption Inspection - Schedule 2. Section I.E.1(b) | <b>X</b>  |          |           |

**Description of Covenant**

The Borrower, through SEDESOL (CNP) or any other entity as the Borrower may deem appropriate, shall, inter alia, ensure compliance with the Anti-Corruption Guidelines by allowing the Bank to inspect accounts, records and other documents of BANSEFI relating to the Project upon the Bank's request and in the company of CNP representatives.

| Name  | Recurrent | Due Date | Frequency |
|---|-----------|----------|-----------|
| Anti-Corruption Audits - Schedule 2. Section I.E.1(c) | <b>X</b>  |          |           |

**Description of Covenant**

The Borrower, through SEDESOL (CNP) or any other entity as the Borrower may deem appropriate, shall, inter alia, ensure compliance with the Anti-Corruption Guidelines by allowing the Bank, at its request, to have such accounts, records and other documents audited by or on behalf of the Bank, using the Bank's terms of reference, with the collaboration of the Borrower, through SEDESOL (CNP).

| Name   | Recurrent | Due Date | Frequency |
|--|-----------|----------|-----------|
| Suspension or Termination - Schedule 2. Section I.E.1(d) | <b>X</b>  |          |           |

**Description of Covenant**

The Borrower, through SEDESOL (CNP) or any other entity the Borrower deems appropriate, shall, inter alia, ensure compliance with the Anti-Corruption Guidelines by agreeing to suspend or terminate BANSEFI's right to process proceeds derived from the Loan or from any other agreement with the Bank, if the Bank has declared BANSEFI ineligible under paragraph 11 of the Anti-Corruption Guidelines.

| Name                                       | Recurrent | Due Date | Frequency |
|--|-----------|----------|-----------|
| Restitution - Schedule 2. Section I.E.1(e) | <b>X</b>  |          |           |

**Description of Covenant**

The Borrower, through SEDESOL (CNP) or any other entity as the Borrower may deem appropriate, shall, inter alia, ensure compliance with the Anti-Corruption Guidelines by agreeing to obtain Restitution from BANSEFI of any amount of the Loan with respect to which fraud and corruption has occurred.

| Name   | Recurrent | Due Date    | Frequency |
|--|-----------|-------------|-----------|
| Anti-Corruption Guidelines - Schedule 2. Section I.E.2 |           | 12-Dec-2014 |           |

**Description of Covenant**

The Borrower, through SEDESOL (CNP), shall, no later than the date ten (10) business days after the date of signature of the LA, issue a notice to BANSEFI (the ACG Notice) in a manner acceptable to the

| Bank, including a copy of the Anti-Corruption Guidelines, and exhorting BANSEFI to comply with the Anti-Corruption Guidelines when managing Loan proceeds (as disbursed in accordance with the LA).   |   |                                    |           |
|---|---|------------------------------------|-----------|
| Name  | Recurrent                                   | Due Date                           | Frequency |
| Indigenous Peoples Plan - Schedule 2.<br>Section I.F.1  | X   |                                    |           |
| <b>Description of Covenant</b>  |   |                                    |           |
| The Borrower, through SEDESOL shall carry out the Project in accordance with the IPP.   |   |                                    |           |
| Name  | Recurrent                                   | Due Date                           | Frequency |
| Terms of Reference - Schedule 2.<br>Section I.F.2   | X   |                                    |           |
| <b>Description of Covenant</b>  |   |                                    |           |
| The Borrower, through SEDESOL shall ensure that the terms of reference for any consultancy in respect to Parts 1(c)(iii)(1) and 2(b)(i) of the Project shall be satisfactory to the Bank following its review thereof and shall duly incorporate the requirements of the Bank Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance. |   |                                    |           |
| <b>Conditions</b>   |   |                                    |           |
| Source Of Fund  | Name  | Type                               |           |
| IBRD  | <i>Contrato de Mandato</i> - Article V 5.02 | Effectiveness                      |           |
| <b>Description of Condition</b>   |   |                                    |           |
| The <i>Contrato de Mandato</i> shall have been duly executed by the parties thereto.  |   |                                    |           |
| <b>Team Composition</b>   |   |                                    |           |
| <b>Bank Staff</b>   |   |                                    |           |
| Name  | Title                                       | Specialization                     | Unit      |
| Fabiola Altimari Montiel  | Senior Counsel                              | Lawyer                             | LEGLE     |
| Patricia M. Bernedo   | Senior Program Assistant                    | Operational/Administrative Support | GSPDR     |
| Wendy Cunningham  | Program Leader                              | Program Leader                     | LCC1C     |
| Mariana Escalante Seyffert  | Junior Professional Associate               | Operations Officer                 | GSPDR     |
| Jimena Garrote  | Senior Counsel                              | Lawyer                             | LEGLE     |
| Sara Francesca Giannozzi  | Social Protection Specialist                | Economist                          | GSPDR     |
| Gabriela Grinsteins   | E T Consultant                              | Lawyer                             | LEGLE     |
| Francesca Lamanna   | Senior Economist                            | Team Lead                          | GSPDR     |
| Martin Henry Lenihan  | Senior Social                               | Safeguards Specialist              | GURDR     |

|                                |   |   |                |               |                              |
|--------------------------------|---|---|----------------|---------------|------------------------------|
|                                | Development Specialist                  |   |                |               |                              |
| Alessandra Marini              | Senior Economist                        | Senior Economist  | GSPDR          |               |                              |
| Victor Manuel Ordonez Conde    | Senior Finance Officer                  | Disbursement Officer                                      | CTRLN          |               |                              |
| Gabriel Penaloza               | Procurement Specialist                  | Procurement Expert  | GGODR          |               |                              |
| Juan Carlos Serrano-Machorro   | Sr Financial Management Specialist      | Financial Management Expert                               | GGODR          |               |                              |
| Lucia Solbes Castro            | E T Consultant                          | Beneficiary Registry and Social Information System Expert | GSPDR          |               |                              |
| Maria Concepcion Steta Gandara | Sr Social Protection Specialist         | Operations Advisor  | GSPDR          |               |                              |
| <b>Non Bank Staff</b>          |   |   |                |               |                              |
| <b>Name</b>                    | <b>Title</b>                            | <b>City</b>   |                |               |                              |
| Alberto Serra                  | Consultant in Social Information System | Santiago de Chile   |                |               |                              |
| <b>Locations</b>               |   |   |                |               |                              |
| <b>Country</b>                 | <b>First Administrative Division</b>    | <b>Location</b>   | <b>Planned</b> | <b>Actual</b> | <b>Comments</b>              |
| Mexico                         | The Federal District                    | Distrito Federal  |                | X             | Federal Level. Country wide. |

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Prudent economic policies in Mexico over the past two decades contributed to the progressive attainment of macroeconomic stability and a synchronization of the business cycle with the country's main trading partners.** After the 2008-2009 global financial crisis, Mexico's economy rebounded quickly, reaching an average growth rate of 4.4 percent between 2010 and 2012. More recently, a global economic slowdown contributed to a deceleration of economic growth to 1.1 percent in 2013. While the weakness in economic activity extended well into the first half of 2014, growth is expected to rebound during the second half of the year leading to a growth projection for 2014 of 2.3 percent<sup>1</sup> and a further cyclical recovery over the next couple of years.

2. **Despite weathering these recent crises, Mexico's long-term economic growth has been somewhat below expectations, limiting a rise in average living standards and more rapid progress on poverty reduction.** Mexico is an upper middle-income country, and a member of the OECD and the G20. In 2013, its GNI per capita<sup>2</sup> was approximately 39 percent of the level observed in high income OECD countries, the same proportion observed two decades ago, signaling a lack of progress in economic convergence. Over the past three decades annual GDP growth averaged 2.4 percent, and only 0.8 percent per capita. Growth decomposition exercises point to insufficient average productivity growth as the main cause of the less than satisfactory growth performance. An underdeveloped financial system, labor market rigidities, high informality, scarce skilled labor, regulatory barriers for doing business, and weak innovation and limited market competition in key input sectors such as telecommunications and energy are often cited as constraints to productivity growth.

3. **Implementation of an ambitious structural reform agenda introduced by the current administration has the potential to raise productivity and unleash growth in the medium term.** Over the past two years major progress has been achieved on the enactment of legislative changes in the areas of labor market regulation, education, telecommunication and competition policy, financial sector regulation, energy, and fiscal policy. The Government currently faces significant challenges to implement these reforms with numerous new regulatory agencies being created. There is a clear potential for these reforms to enhance potential output growth, which is currently estimated in the range of 2.5-3.0 percent.

4. **A long-term view of poverty shows that monetary poverty has not decreased in the last decade, with 2012 rates similar to the rates in 2002.** The monetary (income) measure of poverty, for which long term trends are available in Mexico, shows that poverty has not changed significantly in the last decade, and has actually slightly increased from 50.0 in 2002 to 52.3 percent in 2012.<sup>3</sup> In particular, monetary poverty rose significantly between 2006, when it had reached 42.9 percent, and 2012, breaking the previous decade-long trend of poverty reduction.

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<sup>1</sup> World Bank *Global Economic Prospects* June 2014. Same data source applies for data in the paragraphs 1-3.

<sup>2</sup> US\$16,110 (PPP) in international purchasing power parity terms.

<sup>3</sup> CONEVAL, 2012. Same data source applies for data on poverty in the following paragraphs.

**5. Multi-dimensional poverty and extreme poverty declined in recent years, although opportunities to earn an income remain limited for the poor.** Mexico was the first country in Latin America to adopt a multi-dimensional Poverty Index<sup>4</sup> as its official poverty measure in 2008. The multidimensional poverty measure was defined by the National Evaluation Council (CONEVAL) as a combination of income poverty and a set of deprivations (nutrition, education, social security, basic services, access to health services, and quality and space of the dwelling). According to this multidimensional measure, poverty and extreme poverty declined from 46.1 percent to 45.5 percent and from 11.3 percent to 9.8 percent<sup>5</sup> respectively between 2010 and 2012 (53.3 million poor and 11.5 million extremely poor in 2012).<sup>6</sup> This decline is largely due to an increased access to social services, particularly health care. Poverty among the indigenous population has fallen faster, but their poverty levels (72.3 percent<sup>7</sup>) remain significantly higher than among non-indigenous.

**6. Breaking the vicious cycle of poverty and low productivity requires an integrated reform agenda focused on mutually reinforcing economic and social objectives.** Experience with poverty reduction programs in Mexico has shown both their effectiveness in mitigating poverty, and their limitations in providing more comprehensive support towards sustainable poverty reduction.<sup>8</sup> The country recognizes the multi-dimensional nature of poverty and the fact that any effective poverty reduction strategy must be based on coordinated interventions addressing the different dimensions of poverty while improving the risk mitigation capacity of households. This recognition provided the foundations for the “New Generation Social Policy”, one of the key elements of the Government’s social policy which seeks to reduce poverty and inequality by expanding opportunities for all, through greater access to employment and productive opportunities, and promoting citizens’ participation at the local level, among other things.<sup>9</sup>

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<sup>4</sup>For more details on the methodology to compute multidimensional poverty please refer to the *Metodología para la medición multidimensional de la pobreza en México*, CONEVAL, 2010 ([www.coneval.gob.mx](http://www.coneval.gob.mx)).

<sup>5</sup> Mexico’s extreme poverty line is higher than the World Bank’s extreme poverty line marker of US\$1.25 per day. As of March 2012, the monthly food poverty line was equivalent to approximately US\$4.0 and US\$2.9 per day in urban and rural areas respectively at purchasing power parity. Using the World Bank’s measure 4.4 percent of the population would be below the extreme poverty line.

<sup>6</sup> CONEVAL, 2012 and The World Bank Group’s Country Partnership Strategy for the United Mexican States FY14-19, 2014 (Report Report 83496-MX).

<sup>7</sup> Ibid.

<sup>8</sup> External evaluations demonstrate significant positive impacts of Mexico’s main poverty reduction program, *Oportunidades* (nowadays PROSPERA), on many aspects of multidimensional poverty such as food consumption, education and health. Studies also show PROSPERA’s impact on monetary poverty, attributing as much as a third of the reduction in rural poverty to the Program (Freije, Bando and Arce, 2006 and Skoufias, 2005 among others). At the same time, it remains clear that non-labor income (transfers, pensions, etc.) cannot be solely responsible for poverty reduction, with labor income playing a key role in promoting sustainable poverty reduction.

<sup>9</sup> The most critical element of the New Generation Social Policy is the complementarity between social and economic policies as the cornerstone to guarantee basic social rights and reduce poverty and inequality. The implementation of this policy is built from the local level upwards, through social participation, inter-institutional and inter-governmental coordination and the development of a social information system that consolidates the evidence at the basis of any decision making process for social development.



## B. Sectorial and Institutional Context

7. **Over the last two decades Mexico has made significant progress in the coverage and effectiveness of its social protection system.** A critical step was the establishment of the Conditional Support (CS) Program *Oportunidades* (now known as Program of Social Inclusion PROSPERA) in 1997. As of 2014, PROSPERA reaches approximately 6 million poor households or about 25 million people (23 percent of the total population), and because of its demonstrated impacts on health, nutrition, and education, it has served as a model for numerous countries in the region and beyond.<sup>10</sup> The creation of *Seguro Popular* in 2003 for people not covered by other public health schemes has reduced inequality in the provision of health services.<sup>11</sup> *Seguro Popular* now covers over 50 million people and has expanded health services and insurance to PROSPERA populations that were previously uncovered. Finally, the country developed several legal, institutional, and operational elements required for an integrated social protection system, including the 2004 Social Development Law that established a legal framework for social protection and set up the CONEVAL to evaluate the impact of social programs and policies in the country.

8. **Despite this progress, the social protection system is not achieving its full potential to address the multi-dimensional nature of poverty because it remains fragmented and is not integrated.** Two key weaknesses are the duplication of programs and the lack of information to identify gaps in demand and supply of social services. According to CONEVAL data, in 2011 there were as many as 273 federal programs directed at improving socio-economic welfare- each using different targeting and delivery mechanisms- co-existing with as many as 2,391 state programs. While 60 percent of federal spending is concentrated in only ten federal programs, the cumulative budget of the smallest one hundred programs accounted for as little as 1 percent of spending.<sup>12</sup> The situation is even more complicated at the local level, where an unknown number of social programs are operating, funded by multiple sources, and covering diverse social needs. At no level of government there is a mechanism to identify duplications or gaps in the provision of social services and benefits at the individual and household levels.

9. **In order to strengthen the social protection system and support the poor in an integrated manner, the Government of Mexico (GoM) has started to redefine its Social Policy and has made “Inclusion” one of the five pillars of the 2013-2018 National Development Plan (NDP).** The Inclusive Mexico (*Mexico Incluyente*) pillar, aims to achieve

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<sup>10</sup> The Program was created in 1997 under the name of *Progresa*, and was subsequently renamed *Programa de Desarrollo Humano Oportunidades* in 2002, and then PROSPERA by Decree on September 5th 2014. It provides non-reimbursable contributions to poor families conditional on compliance with certain requirements aimed at developing human capital such as school attendance or periodic health check-ups of young children. External evaluations have shown significant positive impacts on consumption, education and health. See Box A6.1 in Annex 6 for more details.

<sup>11</sup> The reform that introduced *Seguro Popular* replaced the public health system’s historical budgets with actuarially calculated insurance premiums and replaced user fees with contributions based on household ability to pay (though in practice few affiliates contribute). *Seguro Popular* increased use among its affiliates 5 percentage points, decreased out-of-pocket expenditure 25 percent, and reduced the incidence of catastrophic health expenditure slightly more than 15 percent.

<sup>12</sup> CONEVAL (2012) *Inventario CONEVAL de programas y acciones federales de desarrollo social*, as cited in Cortez Vazquez and Vega Torres, “*Modelo de Vinculación con Gobiernos Estatales y Municipales*” (2013).

social cohesion and equality of opportunities by improving access to basic social services for the poorest and most marginalized people and by guaranteeing human and social rights for all. The Ministry of Social Development (SEDESOL), in collaboration with key ministries, is leading this effort with a special emphasis on organizing and integrating interventions at the local level. As part of this effort, in January 2013, the GoM launched a strategy to reduce extreme poverty: the National Crusade against Hunger (CNCH), an inter-sectorial and inter-governmental strategy that prioritizes resources for key social programs in municipalities with the highest rates of food poverty.<sup>13</sup>

**10. Modern management tools are a necessary element for the implementation of this government vision.** Until now each program in SEDESOL administered a separate socioeconomic and demographic questionnaire to potential beneficiaries. Information was managed independently by each program through its own management information system for targeting, delivery and monitoring purposes. To enable better planning, coordination and targeting of social policy, SEDESOL plans to develop an integrated Social Information System (SIS): a technological platform that will integrate existing databases that capture socioeconomic data of beneficiaries (demand for social services), information on who accesses which social programs (Unique Registry of Beneficiaries), and information on the supply of social programs (see Annex 2). At the local level, where there is much less information about what exists and what is needed, SEDESOL plans to develop and implement a Regional Social Development Strategy that would define its role in the planning, coordination and oversight of municipal level investments in social programs.

**11. The PROSPERA Program, with its broad coverage of the poor and strong territorial presence, is also looking to further integrate its beneficiaries into the social protection system,** connecting families to productive opportunities that can enhance their social mobility and ability to generate income, an additional line of action toward reaching the program's long term goal of breaking the inter-generational cycle of poverty.<sup>14</sup> With this goal in mind, the Government is launching a new phase for the Program, building on some of its key strengths which, evidence shows, can be important factors for the successful integration of social program beneficiaries into the larger social protection system:<sup>15</sup> (i) a well-defined target population, (ii) strong territorial presence with a close relationship to beneficiaries, and (iii) a non-reimbursable contribution that facilitates and encourages family engagement with the processes of connecting them to additional programs and services. As part of this new coordination effort, twenty-nine social and productive federal programs have modified their operating rules and formally agreed to provide preferential access to PROSPERA beneficiaries.<sup>16</sup> The new phase of PROSPERA will

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<sup>13</sup> The CNCH targets over 500 municipalities and includes 390 federal programs and agreements with all the states. In 2014 more than 19 different institutions of the federal government are operating in the targeted municipalities with over 90 different programs, initiatives and actions. By the end of 2014, it is expected to reach 1,012 municipalities, covering 78 percent of the population in extreme and food poverty in Mexico (5.5 million persons). The impact of the CNCH is being measured according to CONEVAL's multidimensional poverty indicators.

<sup>14</sup> For more details on PROSPERA's successes and challenges in reaching this goal, see Annexes 2 and 6.

<sup>15</sup> Camacho, Cunningham, Rigolini, and Silva (2014) "*Addressing Access and Behavioral Constraints through Social Intermediation Programs: A review of Chile Solidario and Red Unidos*" mimeo.

<sup>16</sup> More specifically, 29 federal programs have included in their operating rules a transversal paragraph stating they are to give preference to PROSPERA beneficiaries. The programs include social and productive programs which

require specific institutional changes, including, among other things, redefining staffing profiles and responsibilities, capacity building, an updated program communication strategy and testing modalities to link the Program with social, productive and income generating programs.

### **C. Higher Level Objectives to which the Project Contributes**

**12. The Project is fully aligned with the country's National Development Plan Inclusion Pillar, the World Bank Group's goals of eradicating poverty and promoting shared prosperity, the Bank Group's Social Protection and Labor Strategy, and the World Bank Group's Country Partnership Strategy for 2014-19** (Report 83496-MX) discussed by the Executive Directors on December 12, 2013. Specifically, this investment Project falls under the CPS' pillar of Increasing Social Prosperity, and covers activities in the sub-thematic areas of promoting an integrated social protection system and labor markets for inclusive growth. To reduce poverty the proposed Project will: (i) support the re-designed PROSPERA in further improving investments in human capital for the poor; (ii) increase access of PROSPERA beneficiaries to complementary social and productive programs; and (iii) strengthen the social protection system to progressively fill coverage gaps for the poor. These actions should jointly diminish the deprivations in health, education and basic services that are at the core of multidimensional poverty measures.<sup>17</sup> To promote shared prosperity, the Project will foster inclusion by linking the poor to a broader set of programs that can support their income generation capacity, and by contributing to target the supply of social programs to areas and beneficiaries with the greatest needs. The latter is also at the core of the WBG's Social Protection and Labor Strategy for 2012-2022.<sup>18</sup>

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

13. The proposed Project Development Objectives are to support the Government's effort to: (i) increase access of PROSPERA beneficiaries to social and productive programs,<sup>19</sup> and (ii) develop instruments for an integrated social protection system.

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were selected based on their target population, their objectives and the potential to close the gaps of the PROSPERA population according to the multi-dimensional poverty measure (for a full list of the Programs see Annex 2).

<sup>17</sup>PROSPERA's effectiveness as a vehicle to address multidimensional poverty has been demonstrated. External evaluations have shown significant positive impacts of the Program on consumption, education and health. The Program is highly progressive, and simulations suggest that conditional support to families resulted in a reduction of extreme poverty by 3.4 percentage points in 2010, with a particularly strong impact in rural areas (reducing poverty 9.6 percentage points). The Project also intends to track the evolution of PROSPERA beneficiaries' socio-economic welfare as a result of the linkage strategy.

<sup>18</sup> Resilience, equity, and opportunity: the World Bank's Social Protection and Labor Strategy 2012-2022.

<sup>19</sup> "Social" programs refer to those that support closing gaps in access to: health, nutrition, education, housing and other social services. "Productive" programs refers to income generating programs in rural areas and labor related programs in urban areas. See Annex 2. Box A.2.2 for the list of programs.

## Project Beneficiaries

14. **The proposed Project would benefit approximately 6 million households through support to the conditional support program's new phase, centered on linkages to other programs. The Project would also benefit 6.3 million households<sup>20</sup> currently receiving other SEDESOL programs through support for the integration of the social protection system.** The Project will support the implementation of a Regional Social Development Strategy and the development of an integrated Social Information System necessary to match supply and demand for programs more effectively. The resulting improvements in coordination and effectiveness of social policies, starting with the programs adhering to the National Crusade against Hunger (*Crusada Nacional Contra el Hambre*, CNCH), are expected to improve the quality of support received by beneficiary households.

### PDO Level Results Indicators

15. The following key indicators will be used to monitor Project progress towards achieving the development objective:

- Number of PROSPERA beneficiaries that participate in social programs<sup>21</sup>
- Number of PROSPERA beneficiaries that participate in productive programs
- Number of instruments for an integrated social protection system implemented<sup>22</sup>
- Direct Project beneficiaries (number), of which female (percentage)<sup>23</sup>

## III. PROJECT DESCRIPTION

16. **The proposed Project will support a significant shift in the GoM's strategy to strengthen the social protection (SP) system to better support the poor in an integrated manner.** It will do so by supporting SEDESOL to develop the tools critical to establishing an integrated SP system (i.e., Unique Registry of Beneficiaries, Social Program Catalogue, targeting mechanism, Geographical Information System, Regional Social Development Strategy, etc) while simultaneously helping the largest anti-poverty program – PROSPERA – improve its core business processes while building and testing new mechanisms to link its beneficiary population with complementary social and productive programs in the larger SP system. By working with both the sectoral head (SEDESOL – Component 2) and program entities (PROSPERA–Component 1), the proposed Project intends to facilitate the creation of a unified set of tools and operational practices that support the design and implementation of a broader SP system.

### A. Project Components

17. The proposed Project would have two components, summarized below.

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<sup>20</sup> This number is an estimate based on current information in SEDESOL's databases, which aggregates information from individual programs' registries without checking if a particular beneficiary is receiving more than one program. A more accurate estimate of the total population reached will be possible with information from the SIS, once completed.

<sup>21</sup> For the list of social and productive programs see indicator description in Annex 1.

<sup>22</sup> Where implemented refers to operative and capable of producing regular reports for the different functions.

<sup>23</sup> World Bank's Core Sector Indicator for Social Protection and Labor.

18. **Component 1 - Support to the PROSPERA Program and its linkage with social and productive programs (US\$317.5 million).** The objective of the first Component is to support PROSPERA's efforts to improve beneficiaries' social and economic wellbeing by promoting investment in human capital and strengthening the Program's linkage with other social and productive programs while ensuring continued improvements in the Program's service delivery to its beneficiaries.

19. **Sub-Component 1.1. Promoting the investment in human capital through the provision of Conditional Support to PROSPERA Beneficiaries (US\$301.5 million).** Sub-Component 1.1 would provide conditional support to PROSPERA's beneficiaries for education, health and nutrition.<sup>24</sup>

20. **Sub-Component 1.2 – Strengthening PROSPERA's operational capacity to promote beneficiaries' access to social and productive programs (US\$5.0 million).** Sub-Component 1.2 would support the strengthening of PROSPERA's operational structure and of existing inter-sectoral coordination bodies to enhance the Program's effectiveness and promote greater access of beneficiaries to social and productive programs.<sup>25</sup> In particular, Sub-Component 1.2 would provide technical assistance to: (i) define roles and responsibilities of PROSPERA staff working in the implementation of the Program to support the coordination with social and productive programs (see also Annex 2 – Box A2.2); (ii) design capacity building activities to strengthen the implementation of PROSPERA, and align Program operation with the new objectives of promoting greater linkages with complementary social and productive programs; (iii) strengthen the Program's communication strategy towards beneficiaries to update the content and tailor the approach to specific groups (e.g., youth and indigenous populations), increasing its effectiveness; and (iv) design and pilot coordination models for the inclusion of PROSPERA beneficiaries in social and productive programs.<sup>26</sup>

21. **Sub-Component 1.3. Strengthening PROSPERA's Monitoring and Evaluation tools and strategy (US\$11.0 million).** Sub-Component 1.3 would support the strengthening of PROSPERA's monitoring and evaluation tools and Strategy, to build the evidence base that will be critical to assess the implementation of the Program's reforms to increase linkages with social and productive programs and adjust program design accordingly. In particular, Sub-Component 1.3 would provide technical assistance to: (i) update Program targeting and recertification methodology through inter alia: revising the targeting methodology and monitoring PROSPERA beneficiaries that have concluded their participation in the Program; (ii) develop a digital platform containing information on PROSPERA beneficiaries and social and productive

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<sup>24</sup> As regulated by the Program's Operating Rules and accepted by the Bank. In kind support will be excluded.

<sup>25</sup> Promoting access of beneficiaries to productive programs allows them to build on the human capital investments made overtime through participation in *Oportunidades* (nowadays PROSPERA). Ultimate success of this approach in providing beneficiaries with income generation opportunities (and, thus, sustainable poverty reduction), will depend critically on the impact of the existing productive programs (see also Annex 6). To support this agenda, a parallel effort led by Ministry of Finance is working on a strategy to increase productivity, including by improving the effectiveness of productive programs.

<sup>26</sup> In order to provide evidence on the most effective mechanisms in guaranteeing access of beneficiaries to the 29 prioritized social and productive programs, PROSPERA is planning to pilot different coordination models with varying degrees and modalities of technical assistance to be provided to beneficiaries (see Annex 2, Figure A2.2).

programs supply to support and monitor the implementation of the coordination models designed under Component 1.2; (iii) support the linkages and coordination between PROSPERA and the social and productive programs through, *inter alia*: the carrying out of studies and the production of evaluation reports, and data collection on the PROSPERA beneficiaries perception of the coordination between PROSPERA Program and social and productive programs; and (iv) carry out the evaluation of the long-term impact of the Program.

22. **Component 2 – Strengthening the social protection system (US\$31.6 million).** The objective of the second Component is to support SEDESOL to develop new technologies and policies that will allow for better planning of social and productive interventions based on the needs of the population, improving efficiency and effectiveness of spending.

23. **Sub-Component 2.1. Developing and implementing an integrated social information system (SIS) (US\$25.0 million).** Sub-Component 2.1 would support the design, development and implementation of an integrated Social Information System (SIS).<sup>27</sup> This technological platform will integrate, administer and exploit the socioeconomic data of beneficiaries and information on the supply of social programs that will enable better planning, coordination and targeting of social policy. This Sub-Component would support the following activities<sup>28</sup>: (i) carrying out an assessment of the current Information and Communication Technology (ICT) infrastructure needs for the development of the SIS; (ii) developing the SIS; (iii) supporting the implementation of the SIS through, *inter alia*, the acquisition of software and the provision of ICT services; (iv) developing of an operational manual documenting the processes involved in the operation of the SIS; (v) developing capacity building mechanisms for the use of the SIS including, *inter alia*, the development of capacity building software; and (vi) reviewing of the existing legal framework and development of protocols for the exchange of information through the SIS among the Borrower’s ministries and agencies responsible for the implementation of social and productive programs.

24. **Sub-Component 2.2. Supporting the development and implementation of SEDESOL’s Regional Social Development Strategy (RSDS) (US\$6.6 million).** Sub-Component 2.2 would support the definition and implementation of the Regional Social Development Strategy (RSDS). This Sub-Component would support the following activities: (i) carrying out diagnostic studies to identify the challenges facing localities in the development of social interventions and the role that SEDESOL could play, as input to the RSDS, and develop the RSDS based on the recommendations of the diagnostic studies;<sup>29</sup> (ii) defining SEDESOL’s organizational structure needs to implement the RSDS; (iii) developing institutional capacity to support SEDESOL’s implementation of the RSDS including, *inter alia*, the development of capacity building modules and related software; (iv) developing the technological infrastructure required to obtain and

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<sup>27</sup> The elements of the SIS which are described in more details in Annex 2 are the following: (a) the Social Registry; (b) the Unique Registry of Beneficiaries; (c) the Social Program Catalogue; (d) the targeting mechanism; (e) a monitoring dashboard; (f) a business intelligence tool; and (g) a geographical information system.

<sup>28</sup> This Sub-Component will mainly consist of medium and large firm contracts (roughly 15, as identified in the initial procurement plan).

<sup>29</sup> The diagnostic could include, for example, an assessment of currently operating social programs, strategies currently employed by municipalities to design their social policy, funding amounts and sources to understand which federal actors are engaged at the local level.

analyze information on the supply of social programs and the social needs of the population at the local and regional levels; and (v) developing and implementing a monitoring and evaluation system for the RSDS including, inter alia, the acquisition of software and hardware and the provision of ICT services.

## B. Project Financing

25. This is a Project Investment Financing. Total Government Program cost will be approximately US\$12,170 million, of which US\$350 million will be an IBRD loan.<sup>30</sup>

| Project Components   | Project Cost<br>US\$ million | IBRD Financing<br>US\$ million | % Financing |
|--|------------------------------|--------------------------------|-------------|
| Component 1 – <b>Support to the PROSPERA Program and its linkage with social and productive programs</b> | 317.53                       | 317.53                         | 100%        |
| Component 2 - <b>Strengthening the social protection system</b>  | 31.60                        | 31.60                          | 100%        |
| <b>Front end fee</b>   | 0.87                         | 0.87                           | 100%        |
| <b>Total Project Costs/ Total Financing Required</b>   | 350.00                       | 350.00                         | 100%        |

## C. Lessons Learned and Reflected in the Project Design

26. **This operation builds on the Bank’s previous and long term engagement with the Government of Mexico, particularly through the recently closed project with PROSPERA,<sup>31</sup> and a Programmatic Knowledge Service (PKS) program on Social Protection Systems.** These engagements have offered a distinct opportunity for the Bank to learn from, and contribute to: (i) the implementation and continued evaluation of PROSPERA as it approaches its new phase; and (ii) a deeper understanding of the Government’s vision for a social protection system and its operational needs.

27. **Supplemental interventions are necessary to translate PROSPERA beneficiaries’ higher human capital into labor market success.** The body of evidence on *Oportunidades* shows significant positive impact of the Program on fostering human capital development, and does not find a negative link between participation in the Program and labor market outcomes.<sup>32</sup> However, to promote greater labor force participation, more tailored and integrated interventions might be required. Evidence from Chile suggests that the more limited education and information of PROSPERA-like beneficiaries implies that these households are likely to require interventions directed at better connecting them with the labor market and productive opportunities as part of an integrated social protection system. The importance of linking the poor to productive

<sup>30</sup> The World Bank will be solely responsible for the IBRD parallel financing of US\$350 million, including for audit purposes.

<sup>31</sup> World Bank, Implementation Completion and Results Report for *Support to Oportunidades* Project, June, 2014.

<sup>32</sup> Bosch, Stampini, and Bedoya *Are conditional cash transfers associated with lower labor supply? : Evidence from Mexico’s Oportunidades over the period 2000-2010*, IDB Technical Note; 497, October 2012.

programs is particularly great given the high economic and social marginalization of the areas in which beneficiaries tend to live, which creates significant barriers to productive inclusion.<sup>33</sup>

**28. System management tools are necessary to support the implementation of a more integrated approach to social protection and inclusion.** Recent studies show that despite significant progress in improving the living conditions of the poorest and advancing social rights, the construction of a comprehensive system of social protection is still incomplete.<sup>34</sup> The mismatch between demand and supply of services suggests the need for modern management tools to analyze gaps and duplication in the provision of services across the system (e.g., Unique Registry of Beneficiaries - URB) as well as innovative institutional and operational arrangements that can shift planning and coordination of service supply closer to beneficiaries' needs at the local level. These actions are highly complex and will require concerted efforts and strong leadership.

#### **D. Partnership Arrangements**

**29. Over the past years the World Bank has worked in close partnership with the Inter-American Development Bank (IADB) on implementation and technical assistance to the PROSPERA Program.** During the 2009 global financial crisis the GoM engaged in significant fiscal stimulus and used investment loans from the World Bank and IADB in partial support of the PROSPERA Program. This proposed investment loan continues the partnerships, allowing PROSPERA to benefit fully from the knowledge, grant and convening services that have come to it via its full engagement with the World Bank, while signaling transparency and openness to international scrutiny. In September 2013, the IADB's Board of Directors approved a US\$600 million investment loan to support *Oportunidades* (nowadays PROSPERA), the fourth in a series of investments loans to support the Program. While the Government has identified different areas of focus for the financial and technical assistance of the two Banks' investment operations,<sup>35</sup> the two organizations will continue working together to ensure complementarity.

### **IV. IMPLEMENTATION**

#### **A. Institutional and Implementation Arrangements**

**30. Implementation will be carried out by two agencies: a) the National Coordination of PROSPERA (*Coordinación Nacional Prospera, CNP*); and b) the *Secretaría de Desarrollo Social (SEDESOL)* through the Vice Ministry for Planning, Evaluation and Regional Development (*Subsecretaría de Planeación, Evaluación y Desarrollo Regional – SSPEDR*)**

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<sup>33</sup> Eduardo Rodríguez-Oreggia, "*Movilidad Social Intergeneracional de los Jóvenes Beneficiarios de Oportunidades Provenientes de Hogares en Zonas Rurales*" (2010).

<sup>34</sup> *Evaluación estratégica de la Protección Social*, CONEVAL, 2013 and Valencia Lomeli, Foust Rodriguez and Tetrault Weber, *Social Protection Systems in Latin America and the Caribbean: Mexico*, Economic Commission for Latin America and the Caribbean (ECLAC), 2012.

<sup>35</sup> The IADB's recently approved investment loan focuses on strengthening *Oportunidades* (now PROSPERA) relationship with the health and education sectors. In particular, its technical assistance focuses on supporting the revisions to the educational conditional support to promote higher levels of junior high and high school enrollments and reduce drop-out, foster more effective access to health and nutrition services, and promote Early Childhood Development interventions.



**and the Finance and Administration Unit (*Oficialía Mayor – OM*).** While CNP reports directly to SEDESOL, it has technical and operational autonomy. CNP will be responsible for the implementation and day-to-day oversight of Component 1 and SEDESOL will be responsible for Component 2.

**31. Over the past five years, the CNP has built considerable expertise in implementing World Bank financed projects, while for SEDESOL this is its first Bank Project.** The CNP, with the support of the WBG Project *Support to Oportunidades*, which started in 2009, and its Additional Financing (Report No.46821-MX,55859-MX/P115067) has consolidated and strengthened its systems for overall management, monitoring and evaluation. However, SEDESOL has not been directly involved in the implementation of a WBG operation before. This is likely to pose some implementation challenges given the somewhat complex arrangements with two co-implementing agencies and NAFIN (*Nacional Financiera, S.N.C., I.B.D.*)<sup>36</sup> as the financial agent, while SEDESOL familiarizes itself with World Bank procedures. To mitigate this risk, the proposed Project will fully rely on established and well-functioning national systems and the World Bank team will closely monitor progress and provide on-demand assistance to ensure smooth and timely implementation.

**32. The Operations Manual for the Project specifies the arrangements for the implementation and coordination of the Project, with specific information regarding roles and responsibilities for each implementing agency** (including preparation of periodic progress reports, and updating of implementation plans) as well as details regarding the performance of fiduciary functions (financial management and reporting, procurement). The Component Coordinators will be responsible for ensuring the provision of timely inputs while suitably qualified financial management and procurement personnel in both implementing agencies will be supporting implementation on the fiduciary side.

**33. The National Coordination of PROSPERA through its Administration and Financial Affairs General Directorate (*Dirección General de Administración y Finanzas, DGAF*), or the unit that will assume this responsibility as defined in the Operational Manual, will act as Project coordinator vis-a-vis the World Bank through NAFIN, to channel submission of required documentation in a timely manner.** The overall Project Coordinator will be responsible for coordinating activities across implementing agencies, particularly to ensure that inputs are provided in a timely manner and that Progress Reports, the annual operational plan and budget for the Project, as well as the audit reports are submitted as agreed with the WBG.

## **B. Results Monitoring and Evaluation**

**34. The arrangements to monitor and evaluate this investment loan will be the joint responsibility of SSPEDR, OM and CNP.** Current arrangements for this operation are specified in the results framework in Annex 1, which will serve as the basis for monitoring and evaluating progress throughout implementation, both for learning and accountability purposes. Additionally, Project monitoring will rely on sector information from line secretariats, channeled through SSPEDR, OM and CNP.

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<sup>36</sup> NAFIN is a Mexican development bank serving as Government's financial agent for investment loans purposes.

35. **The Project will build on the well-established national monitoring and evaluation systems while focusing on continuing strengthening these crucial capacities.** The Mexican Government has a strong monitoring and evaluation system for its programs agreed for each program every year. The Project will contribute to strengthening Government monitoring and evaluation capacity through the development of PROSPERA’s digital platform to monitor and coordinate the linkage model and the development of an integrated SIS in SEDESOL. Those instruments will also be key in monitoring progress towards Project’s PDO and intermediate indicators.

### C. Sustainability

36. **The Project is fully aligned with the Government’s National Development Plan, current social strategy, and long-standing agenda on poverty reduction.** The Project supports Government efforts to reduce poverty and increase shared prosperity. Support for the new phase of the Conditional Support Program, which has been the main vehicle to achieve this goal, has been consistent across administrations as demonstrated by increased coverage. The Project will now support the Government’s commitment to a new generation of social policy to ensure more coordinated, and effective access to social and productive programs for the poor while reducing fragmentation and duplication of programs. It is expected that these efforts will improve support for the poor and increase efficiency in spending in the long-term.

## V. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

| Risk Category                            | Rating             |
|--|--------------------|
| <b>Stakeholder Risk</b>                  | Substantial        |
| <b>Implementing Agency Risks</b>         |                    |
| - Capacity                               | Substantial        |
| - Governance                             | Substantial        |
| <b>Project Risk</b>                      |                    |
| - Design                                 | High               |
| - Social and Environmental               | Moderate           |
| - Program and Donor                      | Low                |
| - Delivery Monitoring and Sustainability | Moderate           |
| <b>Overall Implementation Risk</b>       | <b>Substantial</b> |

### B. Overall Risk Rating Explanation

37. **The overall risk of the Project is Substantial.** Stakeholder risk is rated substantial as the proposed Project supports new strategies and approaches which require strong commitment and

coordination among several actors at different levels. To mitigate this risk, the Project is supporting technical assistance to ensure appropriate support to the design, implementation and monitoring of the Project, with higher than usual implementation support. Implementing Agency risks are substantial given that SEDESOL (SSPEDR and OM in particular) has no previous experience working with World Bank investment loans. The WBG team will provide additional implementation support and training to ensure that this does not hamper implementation. Finally, Project risks are high due to the large volume and high complexity of the technical assistance components which also involve procurement of ICT services that can be subject to specific national legislation requirements. Therefore, the World Bank team will work closely with counterparts to facilitate early programming and implementation of technical assistance activities, particularly those related to the procurement of ICT services, among other things.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

38. **The Project is expected to directly benefit approximately 6 million poor households in Mexico**, who will be receiving non-reimbursable contributions aiming to increase household consumption and human capital investments and to increase beneficiaries' health, nutrition, education, and productivity. Expected benefits include, but are not limited to: (i) increased household consumption, (ii) increased school enrollment, attendance and completion, (iii) improved health prevention/access to health, (iv) improved nutrition, and (v) improved access to services that facilitate productive inclusion in the labor market. Annex 6 outlines the economic rationale for supporting conditional support programs, as well as the strengthening of the social protection system, with details on coverage, targeting, impact and efficiency. The value added of Bank support in this context comes from the Bank's international experience with CS programs, employability programs, and designing the elements of a fully-fledged social protection system that protects the vulnerable while building the elements for a competitive economy.<sup>37</sup>

### B. Technical

39. **The rationale for the Project design is informed by a recently closed operation in the social protection sector in Mexico.** The previous Project in support to *Oportunidades* highlighted the significant challenges of coordination across programs and sectors, as well as the critical role of technical assistance to drive improvements in Program design and operation.

40. **To address the challenge of coordination, the Project includes the sectoral head (SEDESOL) as implementing agency to ensure strong leadership for the development of an integrated social protection system.** A shift in vision from a *program* to a *systems* approach requires strong institutional leadership and commitment from all actors involved. By including SEDESOL as an implementing agency and supporting its vision for a social protection system and the development of key instruments such as the Unique Registry of Beneficiary and an Integrated Social Information System, the Project aims to ensure this leadership and promote

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<sup>37</sup> For more details and literature references see Annex 6.

coordination across sectors and programs to implement targeted interventions to the poor (e.g. Brazil<sup>38</sup>).

41. **The decision to include a substantial amount of technical assistance reflects the need to support with evidence and technical inputs the implementation of recent shifts in Mexico’s social policy strategy.** A well-defined technical assistance and evaluation agenda provides legitimacy and the evidence base to introduce changes in Program operation that can improve outcomes. This evidence base is especially important in the context of the need to build stronger linkages with other social and productive programs in second generation CS programs and in pilot testing new interventions. Sound evidence provides legitimacy to policy making and informs the strategic direction for social policy. At the Program level, it can also inform the process of inter-sectoral coordination providing the basis for a shared understanding.

### C. Financial Management

42. **The Project entails complex implementation arrangements and flow of funds involving two implementing entities (National Coordination-CN- of PROSPERA and SEDESOL),** as well as other actors with various operational roles depending on the component, as described in the following table:

| Component 1  | Component 2   |
|--|---|
| CN PROSPERA will be the implementing agency of Component 1 providing non-reimbursable contributions and technical assistance. BANSEFI ( <i>Banco del Ahorro Nacional y Servicios Financieros</i> ) will be the financial intermediary ( <i>agencia liquidadora</i> ), delivering these non-reimbursable contributions to beneficiaries. For this purpose BANSEFI also subcontracts services from third institutions. | SEDESOL will be the implementing entity of Component 2. |
| NAFIN is the financial agent for the overall Project which mainly entails managing Project disbursements only between the Bank and the Federal Treasury after Project expenditures have been incurred. NAFIN is also in charge of coordinating supervision missions and providing operational support to the project implementing entities for conducting procurement and financial management processes.            |   |

43. **Retroactive financing:** The total amount of retroactive financing under the Project will not exceed US\$5 million for payments made for Eligible Expenditure on or after 19 August, 2014.

44. **Financial Management (FM) risk.** This risk is a result of the complex FM process and is mitigated through various measures, described in detail in Annex 3, including the strong overall country public FM system. SEDESOL and PROSPERA are governed by well-defined operating rules governing the program, an adequate internal control environment with sound financial and operational systems and well defined procedures used by the entities within the Federal Government in Mexico. In addition, the World Bank will conduct regular FM supervisions and provide periodical training aimed at building capacity. The Project will be annually audited in accordance with terms of reference acceptable to the Bank.

<sup>38</sup> See Brazil Second *Bolsa Familia* Project (Ln. 7841-BR/P101504).

45. SEDESOL fiduciary aspects will be managed by SEDESOL Budgetary Unit (*Oficialía Mayor*). Given the limited experience of the new personnel involved in the Project, the World Bank will organize timely capacity building and provide regular support to the team.

#### **D. Procurement**

46. **Procurement.** As in the previous operation in the sector, most of the resources of the Project will be directed to provision of non-procurable activities. Most of the resources under Sub-Components 1.2.-1.3, and Component 2 will provide consulting services, equipment, and institutional capacity building conducted directly by PROSPERA and SEDESOL (see Annex 3). A comprehensive procurement assessment of SEDESOL has been completed and mitigation measures haven been agreed with clients. In order to mitigate this risk the Project will have to maintain competent fiduciary staff throughout the Project. The Bank conducted a full fiduciary training before negotiations.

#### **E. Social (including Safeguards)**

47. **Indigenous people represent an important share of PROSPERA's beneficiaries even though they are not a specific target group of the Program.** As a whole, indigenous beneficiaries represent 24.9 percent of PROSPERA's total beneficiaries, and as a result OP/BP 4.10 has been triggered. In compliance with OP/BP 4.10, Indigenous Peoples, and national regulations, an Indigenous Peoples Plan (IPP) has been prepared for the Project. To increase the impact of PROSPERA on indigenous people, two specific sets of actions will be implemented, as documented in the IPP: (a) *Indigenous Communication Plan*, and (b) *Bilingual promoters*.<sup>39</sup> The IPP outlines appropriate grievance redress mechanisms, as well as mechanisms for monitoring its implementation. The IPP was discussed prior to appraisal with the Secretariat of the Consultative Board of the Indigenous Peoples National Commission (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas - CDI*). CDI confirmed that the Project and its IPP are aligned with the consultations held with Indigenous People, Indigenous communities and afro-descendent conducted in the context of the preparation of the National Development Plan and the Special Program for Indigenous Population for 2014-2018 and, is therefore, fully consistent with the Commission protocol for nationwide coverage of interventions. The IPP was published in PROSPERA and SEDESOL webpages (see Annex 3), as well as the World Bank's website.

#### **F. Environment (including Safeguards)**

48. The proposed Project has Environmental Assessment Category C and the OP/BP 4.01 (environmental Assessment) is not triggered as the nature and scope of the Project activities are not expected to generate adverse environmental impacts.

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<sup>39</sup> PROSPERA, as part of the Program *Promotores Bilingue*, identified, recruited and trained personnel that could speak indigenous language and could be certified based on the national standard. This certification is provided by the *Instituto Nacional De Lenguas Indígenas (INALI)* and by the *Consejo de Normalización y Certificación de Competencias Laborales (CONOCER)*. For more information on the actions of the IPP see Annex 3.

## Annex 1: Results Framework and Monitoring

### Mexico

#### MX Social Protection System (P147212)

#### Results Framework

#### Project Development Objectives

##### PDO Statement

The proposed Project Development Objectives are to support the Government's effort to: (i) increase access of PROSPERA beneficiaries to social and productive programs, and (ii) develop instruments for an integrated social protection system.

**These results are at** |

#### Project Development Objective Indicators

| Indicator Name   | Baseline   | Cumulative Target Values |            |            |            |            |
|--|------------|--------------------------|------------|------------|------------|------------|
|  |            | YR1                      | YR2        | YR3        | YR4        | End Target |
| # of PROSPERA beneficiaries that participate in social programs (Number)         | 465,842.00 | 496,774.00               | 541,484.00 | 726,779.00 | 992,344.00 | 992,344.00 |
| # of PROSPERA beneficiaries that participate in productive programs (Number)     | 14,370.00  | 15,324.00                | 16,704.00  | 22,402.00  | 30,613.00  | 30,613.00  |
| # of instruments for an integrated social protection system implemented (Number) | 0.00       | 0.00                     | 3.00       | 5.00       | 7.00       | 7.00       |

|   |            |               |            |            |            |               |
|---|------------|---------------|------------|------------|------------|---------------|
| Direct project beneficiaries (Number) - (Core)                      | 25,000,000 | 25,000,000.00 | 25,000,000 | 25,000,000 | 26,000,000 | 26,000,000.00 |
| Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core) | 52.80      | 52.80         | 52.80      | 52.80      | 52.80      | 52.80         |

### Intermediate Results Indicators

| Indicator Name  | Baseline | Cumulative Target Values                                       |                                      |  |                                  |                                  |
|---|----------|--|--------------------------------------|--|----------------------------------|----------------------------------|
|   |          | YR1  | YR2                                  | YR3  | YR4                              | End Target                       |
| % of PROSPERA beneficiaries in Q1 and Q2 (Percentage)                   | 68.50    | 70.00  | 70.00                                | 71.00  | 71.00                            | 71.00                            |
| % of PROSPERA' students that transition to upper secondary (Percentage) | 65.00    | 68.00  | 68.00                                | 68.00  | 68.00                            | 68.00                            |
| Pilots of the PROSPERA coordination models (Text) (Text)                | None     | Models piloted   | Evaluation of the pilots             | Results inform decision on modifications and whether to scale-up | Follow up to the scale-up        | Follow up to the scale-up        |
| Curriculum for PROSPERA personnel capacity building updated (Text)      | None     | Revision and assessment of existing capacity building programs | Content ( <i>contenido</i> ) updated | New capacity building applied in personnel                       | Evaluation of the new curriculum | Evaluation of the new curriculum |
| % of PROSPERA beneficiaries that are aware of complementary social and  | 0.00     | 0.00   | 0.00                                 | 50.00  | 70.00                            | 70.00                            |

|   |      |  |   |   |  |  |
|---|------|--|---|---|--|--|
| productive programs<br>(Percentage)   |      |  |   |   |  |  |
| % beneficiaries of CNCH<br>programs that are registered in<br>the Unique Registry of<br>Beneficiaries<br>(Percentage) | 0.00 | 0.00   | 0.00  | 50.00   | 80.00  | 80.00  |
| Development of the integrated<br>Social Information System<br>(Text)  | None | Integrated SIS<br>design<br>approved<br><br>Social<br>Registry and<br>Unique<br>Registry of<br>Beneficiaries<br>design<br>approved | Social<br>Program<br>Catalogue<br>implemented<br><br>Social<br>Registry and<br>Unique<br>Registry of<br>Beneficiaries<br>Implemented<br><br>Targeting<br>Mechanism<br>approved<br><br>Monitoring<br>dashboard<br>approved | Targeting<br>mechanism<br>implemented<br><br>Monitoring<br>Dashboard<br>implemented<br><br>Business<br>intelligence<br>and<br>Geographic<br>Information<br>System<br>approved | Business Intelligence<br>and Geographic<br>Information System<br>implemented | Social Registry, Unique<br>Registry of beneficiaries,<br>Social Program<br>Catalogue, targeting<br>mechanism, monitoring<br>dashboard, business<br>intelligence and<br>geographic information<br>system developed. |
| Development of the Regional<br>Social Development Strategy<br>(Text)  | None | Diagnostic<br>Realized   | Institutional<br>structure of the<br>Strategy<br>designed<br>is operational   | Strategy<br>under<br>implementat<br>ion   | Process evaluation of<br>the RSDS designed and<br>implemented                | Process evaluation of the<br>RSDS designed and<br>implemented  |
| Curriculum for SEDESOL<br>Personnel capacity building on<br>the RSD Strategy  | None |  | Capacity<br>Building<br>Program   | Evaluation<br>of the<br>curriculum  |  | Evaluation of the<br>curriculum  |



|        |  |  |                             |  |  |  |
|--------|--|--|-----------------------------|--|--|--|
| (Text) |  |  | Content revised and updated |  |  |  |
|--------|--|--|-----------------------------|--|--|--|

### Indicator Description

#### Project Development Objective Indicators

| Indicator Name  | Description (indicator definition etc.)  | Frequency | Data Source / Methodology  | Responsibility for Data Collection |
|---|--|-----------|--|------------------------------------|
| # of PROSPERA beneficiaries that participate in social programs     | The social programs refer to those for which operating rules have been modified, starting from the programs for which there is available information for the baseline and for which there is greater available supply and stronger collaboration with PROSPERA that allows better tracking. Thus, social programs currently refer to the following (see also Annex 2, Box A2.2): Program to Support Indigenous Education, Rural Housing Program, Housing for all Program, Program to Support Agricultural Workers, Social Pensions Program, Childcare Facilities Program for working mothers, and National Scholarship Program. As information improves, other social programs may be included, and the indicator description will be updated correspondingly. | Yearly    | Administrative data from social programs reported by the Ministry of Public Sector<br><br>Once developed, the SIS (Unique Registry of Beneficiaries) will provide the data needed. | CN PROSPERA                        |
| # of PROSPERA beneficiaries that participate in productive programs | The productive programs refer to those for which operating rules have been modified, starting from the programs for which there  | Yearly    | Administrative data from productive programs reported by the Ministry of   | CN PROSPERA                        |

|   |   |        |  |         |
|---|---|--------|--|---------|
|   | <p>is available information for the baseline and for which there is greater available supply and stronger collaboration with <i>PROSPERA</i> that allows better tracking. Thus, productive programs currently refer the following (see also Annex 2, Box A2.2): Program to Promote Social Economy (<i>Programa de Fomento a la Economía Social</i>, FONAES), Productive Options Program, Fund for Agricultural Production Projects, Program for the Improvement of Indigenous production and productivity, Support Program for Productivity of Women Entrepreneurs, and Program to support employment (<i>Servicio Nacional de Empleo-BECATE</i>). As information improves, other productive programs may be included, and the indicator description will be updated correspondingly.</p> |        | <p>Public Sector</p> <p>Once developed, the SIS (Unique Registry of Beneficiaries) will provide the data needed.</p> |         |
| # of instruments for an integrated social protection system implemented | <p>Instruments for an integrated social protection system refer to the 7 tools that will be developed and used by SEDESOL for better targeting and producing reports. The instruments are the following: (1) the Social Registry, (2) the Unique Registry of Beneficiaries, (3) Social Program Catalogue, (4) Targeting mechanism, (5) Monitoring dashboard, (6) Business Intelligence and (7) Geographic Information System. The sequencing of the developing of the instruments is reported in the intermediate indicators below.</p>   | Yearly | Report for each instrument including its user manual.  | SEDESOL |

|                              |  |         |  |             |
|------------------------------|--|---------|--|-------------|
| Direct project beneficiaries | Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e. children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage. | Yearly. | Administrative Data from the <i>Padrón de Beneficiarios</i> de PROSPERA. | CN PROSPERA |
| Female beneficiaries         | Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.   | Yearly  | Administrative Data from the <i>Padrón de Beneficiarios</i> de PROSPERA. | CN PROSPERA |

### Intermediate Results Indicators

| Indicator Name  | Description (indicator definition etc.)   | Frequency       | Data Source / Methodology   | Responsibility for Data Collection |
|---|---|-----------------|---|------------------------------------|
| % of PROSPERA beneficiaries in Q1 and Q2  | This is a measure of Program targeting and refers to the percentage of beneficiaries of PROSPERA that are in the first two quintiles of income distribution. Computations are based on the ENIGH national survey. Baseline is for 2010.   | Every two years | ENIGH   | INEGI                              |
| % of students receiving PROSPERA education support that transition to upper secondary | This percentage is computed by dividing the number of students receiving PROSPERA education support that are enrolled in upper secondary in t1 by the total number of students receiving PROSPERA education support that finished lower secondary school in t0. The indicator aims to measure progress in | Yearly          | Administrative Data from the <i>Padrón de Beneficiarios</i> de PROSPERA as reported also in the MIR for PROSPERA. | CN PROSPERA                        |

|  |  |                          |   |             |
|--|--|--------------------------|---|-------------|
|  | reducing the gap in transition rates for students receiving PROSPERA education support. Because of lack of baseline data, and to ensure consistency with the Program's MIR, the indicator does not attempt to track transition rates for all youth/students within families receiving PROSPERA support, but only for those students that are receiving the education component of PROSPERA support.  |                          |   |             |
| Pilots of the PROSPERA coordination models (Text)  | The Project will support the piloting of different approaches for increasing access to social and productive programs for PROSPERA beneficiaries. The pilots will be developed and evaluated. The result of the evaluation will inform the decision on whether scale up the pilot or not, and the introduction of possible modifications to the models. In the case of scale up in year 4 the Project will monitor the follow up to the scale up of the successful intervention. | Yearly                   | Program's report of each completed stage according to the sequence identified by the indicator. | CN PROSPERA |
| Curriculum for PROSPERA personnel capacity building updated                                | This indicator will measure the extent to which the existing curriculum for the capacity building for PROSPERA operational personnel is revised, and then evaluated.   | Yearly (years 1,2 and 4) | Program's report of each completed stage according to the sequence identified by the indicator. | CN PROSPERA |
| % of PROSPERA beneficiaries that are aware of complementary social and productive programs | This indicator will measure the awareness of the existence of complementary social and productive programs for potentially eligible PROSPERA beneficiaries. The sample framework and the definition on the information collected will be conducted in year one, then piloted in year two to then being scaled up in year 3.  | Yearly                   | Report from Sentinel Sites data.  | CN PROSPERA |

|   |  |                               |  |                |
|---|--|-------------------------------|--|----------------|
| <p>% beneficiaries of CNCH programs that are registered in the Unique Registry of Beneficiaries</p> | <p>This indicator will report as numerator the number of beneficiaries of the CNCH programs whose information has been provided to the URB, and as denominator the sum of program beneficiaries in all programs of the CNCH, regardless of repetition (e.g. individual beneficiaries receiving more than one program). The indicator is meant to provide information on whether individual program registry rolls have been migrated into the URB.</p> | <p>Yearly</p>                 | <p>SIS (Unique Registry of Beneficiaries).</p>   | <p>SEDESOL</p> |
| <p>Development of the integrated Social Information System</p>                                      | <p>This indicator will report on the regular progress made in the development the integrated social information system for which the design and development will be provided under the Project. It measures progress based on the design and implementation of the specific modules identified as critical for the SIS.</p>  | <p>Yearly</p>                 | <p>Report for each outcome identified in the indicator (for instruments approved and/or implemented)</p> | <p>SEDESOL</p> |
| <p>Development of the Regional Social Development Strategy</p>                                      | <p>This indicator will report progress in the development, implementation and evaluation of the Regional Social Development Strategy. It measures progress based on the design and implementation of the critical elements of the strategy (diagnostic/ design/ implementation).</p>   | <p>Yearly</p>                 | <p>Report for each outcome identified in the indicator.</p>  | <p>SEDESOL</p> |
| <p>Curriculum for SEDESOL Personnel capacity building on the RSD Strategy</p>                       | <p>This indicator will report progress in the development, implementation and evaluation of the curriculum for SEDESOL Personnel on the regional social development strategy.</p>  | <p>Yearly (years 2 and 3)</p> | <p>Report for each outcome identified in the indicator</p>   | <p>SEDESOL</p> |

## Annex 2: Detailed Project Description

### MEXICO: Social Protection System

1. **The Government of Mexico is undertaking two significant shifts in strategy to strengthen the social protection system to better support poor beneficiaries in an integrated manner.** First, it launched the new phase of the Conditional Support Program to increase PROSPERA’s linkages with complementary social and productive inclusion programs. Second, it is placing increasing priority on strengthening policy planning tools that allow for more effective and efficient social spending, such as the development of a Social Information System and the development and support to the implementation of a Regional Social Development Strategy. The proposed Project would support these efforts.

2. **Component 1 - Support to the PROSPERA Program and its linkage with social and productive programs (US\$317.5 million).** The objective of the first Component is to support PROSPERA’s efforts to improve beneficiaries’ social and economic wellbeing by promoting investment in human capital and strengthening the Program’s linkage with and access to other social and productive programs while ensuring continued improvements in the Program’s service delivery to its beneficiaries. The key Program’s challenges addressed by the Project are summarized in Table A2.1.

**Table A2.1 –PROSPERA key challenges addressed by the Project**

| Evidence   | Actions  |
|--|--|
| Over time, household socioeconomic conditions improve, but at a declining rate <sup>40</sup>   | In addition to helping build the human capital of the children through the classic co-responsibilities, link PROSPERA’s households to programs of productive inclusion that should help raise their autonomous incomes   |
| Desertion rates in secondary school remain high and the scholarship amounts are no longer covering the opportunity cost in urban areas <sup>41</sup> | Revise co-responsibility scheme, including studies to assess value and frequency of non-reimbursable contribution amounts in urban areas; alternative modalities for the delivery of secondary education are recognized by the program to fulfill co-responsibilities  |
| Social mobility and labor market insertion of PROSPERA beneficiaries and former beneficiaries is limited <sup>42</sup>                               | Strengthen the linkages with the existing supply of job training, job placement and productive programs that can support income generation. Revise content of existing monthly health workshops for youth, to include topics related to job orientation and socio-emotional skills that can support youth’s productive inclusion |

<sup>40</sup>Simulations based on program data on beneficiaries’ conditions at entry and at the time of recertification (Campos-Vázquez y Chiapa, 2010). suggest that autonomous household welfare changes slowly.

<sup>41</sup> Schools with greatest number of PROSPERA beneficiaries are those with lower ENLACE (*Evaluación Nacional del Logro Académico en Centros Educativos* – National evaluation of Academic Achievement in Schools) scores (Mancera: 2007 y Valora: 2008). Studies show that transfers are not sufficient to maintain all children and youth in school, and that desertion rates remain high especially in secondary. In 2011, the Program’s beneficiary database included at least 2.4 million children and youth between 8 and 17 that were not receiving the education transfer (26.8 percent of children between 8 and 11 and 36.3 percent of youth between 12 and 17).

<sup>42</sup> Rodríguez Oreggia: 2010; Yashine: 2012.

3. *Sub-Component 1.1. Promoting the investment in human capital through the provision of Conditional Support to PROSPERA Beneficiaries (US\$301.5 million).* Sub-Component 1.1 would provide conditional support to PROSPERA beneficiaries for education, health and nutrition (see Box A2.1).<sup>43</sup>

**Box A2.1. PROSPERA – Program description and basic structure of conditional support**

PROSPERA is the largest social assistance program in Mexico. In 2014, it covered approximately 6 million families, or about 26 million people (23 percent of the total population). It disburses non-reimbursable contributions to families conditional on compliance with certain requirements designed to promote investments in human capital formation. Currently, these requirements include: (i) ensuring for all household members regular visits to health centers (at least twice a year, and more frequently for pregnant women and children under two years, according to established protocols), (ii) ensuring that at least one adult member of the family attends monthly health information sessions, (iii) ensuring that children and youth under 21 years enroll in school and – for those between 3<sup>rd</sup> grade of primary and 3<sup>rd</sup> grade of secondary – attend classes at least 85 percent of the time, and (iv) a one-time incentive for the youth that complete high school before the age of 22. In the areas of health and nutrition, in addition to the non-reimbursable contributions, the Program provides a basic package of health services free of charge, including the delivery of food supplements to vulnerable groups and education to support infant, pregnant and lactating women’s nutrition. A summary of the current structure of these transfers and the co-responsibilities is shown in Figure A2.1.

**Figure A2.1 – Structure and requirements of conditional support and co-responsibilities, PROSPERA**

| Component | Support                         | Requirements to receive them for the first time   | Requirements to keep on receiving them   |
|-----------|---------------------------------|---|--|
| Food      | Food                            | Enroll in the Program and register in the Health Unit   | All the family members should attend the medical appointments and health educational workshops |
|           | Food Supplements                |   |  |
|           | Childhood                       | Deliver Birth Certificate copy of children from 0 to 9 years old  |  |
| Health    | Basic Health Package            | Enroll in the Program and register in the Health Unit   | All the family members should attend the medical appointments and health educational workshops |
|           | Nutrition                       | The physician in the health unit should detect the child or the mother’s pregnancy or breast-feeding status |  |
|           | Seniors                         | Validate the senior survival with form AM1 and deliver copy of the senior ID                                | Seniors should attend their medical appointments every six months                              |
| Education | Scholarships                    | Report their school enrollment with the forms E1, EMS1 or Evidence of Enrollment                            | Regularly attend school  |
|           | School Supplies                 |   |  |
|           | Young people with Oportunidades | To be registered as an Oportunidades fellow and finish high school before becoming 22 years old             | n/a  |

4. *Sub-Component 1.2. Strengthening PROSPERA’s operational capacity to promote beneficiaries’ access to social and productive programs (US\$5.0 million).* Sub-Component 1.2

<sup>43</sup> New non-reimbursable contributions will be recognized as conditional contributions provided that these are regulated by the Program’s Operating Rules and accepted by the Bank.

would support the strengthening of PROSPERA’ operational structure and of existing inter-sectoral coordination bodies to enhance the Program’s effectiveness and promote greater access of beneficiaries to social and productive programs (see Box A2.2 and A2.3). In particular, Sub-Component 1.2 would provide technical assistance to: (i) define roles and responsibilities of PROSPERA staff working in the implementation of the Program to support the coordination with social and productive programs (see also Table A2.1); (ii) design capacity building activities to strengthen the implementation of PROSPERA, and align Program operation with the new objectives of promoting greater linkages with complementary social and productive programs; (iii) strengthen the Program’s communication strategy towards beneficiaries to update the content and tailor the approach to specific groups (e.g. youth and indigenous population), increasing its effectiveness; and (iv) design and pilot coordination models for the inclusion of PROSPERA beneficiaries in social and productive programs.<sup>44</sup>

**Table A2.1 – Proposed Technical Assistance to strengthen the linkage with social and productive programs- Component 1.2.**

| <b>Activity</b>              | <b>Objective</b>   | <b>Details</b>   | <b>Type</b> |
|------------------------------|--|--|-------------|
| (i) Coordination             | Strengthen inter-sectoral coordination at the federal, state and local levels  | Definition of roles and responsibilities of the personnel and committees <sup>45</sup> (at the federal, state and local levels) established in the context of PROSPERA’ new phase with the objective of promoting greater access of beneficiaries to a package of social and productive programs   | TA          |
| (ii) Capacity building       | Strengthen PROSPERA’ operational structure and improve capacity to implement social programs in the long term                      | Update capacity building for operational personnel to align it to the new responsibilities. The TA will review, assess and revise the content of the capacity building programs provided to PROSPERA operational staff with the objective to make it permanent task to adapt capacity building to the needs of the Program   | TA          |
| (iii) Communication Strategy | Strengthen service delivery and increase effectiveness of the new strategy linking beneficiaries to social and productive programs | Review and update the Program’s communication strategy towards beneficiaries to support the new objectives of the program, in particular: <ul style="list-style-type: none"> <li>- Update the content of existing communication strategy to include linkages to complementary programs, including a tailored strategy for indigenous population</li> <li>- Develop a tailored communication strategy and materials for target groups</li> <li>- Assess and revise the content of existing monthly health workshops for youth, to include topics that are related to the development of socio-emotional skills that can support youth’s productive inclusion</li> </ul> | TA          |
| (iv) Piloting of             | Identify the most  | Pilot models linking beneficiaries to social and   | TA          |

<sup>44</sup> In order to provide evidence on the most effective coordination/linkages mechanisms in guaranteeing access of beneficiaries to the 29 social and productive programs that have prioritized access of PROSPERA beneficiaries, PROSPERA is planning to pilot different coordination/articulation models with varying degrees and modalities to facilitate the provision of technical assistance to PROSPERA beneficiaries. These different models will build on the basic operational structure of the Program (see Figure A2.2). The evaluation of the pilots in Sub-Component 1.3 will inform the scale-up.

<sup>45</sup> For a full description of PROSPERA’s existing inter-sectoral coordination mechanisms see Box A2.2



| Activity                    | Objective   | Details   | Type |
|-----------------------------|---|---|------|
| linkage/coordination models | appropriate operational model to support the linkage of beneficiaries with complementary programs | productive programs. The pilot will serve to assess effectiveness and scalability of modifications to PROSPERA's operational structure in support of linking beneficiaries to programs. In particular, the pilots will test different degrees/models of coaching provided to beneficiaries (see Box A2.2.)  |      |
|                             | Identify effective mechanisms to promote labor market insertion of beneficiaries                  | Pilot interventions to promote labor market insertion, including facilitating access of beneficiaries to labor market intermediation services offered by the National Employment Service ( <i>Servicio Nacional de Empleo, SNE</i> ). These would include programs offering training and temporary job placement (e.g. <i>Becate</i> ), as well as the registration of beneficiaries with the SNE employment portal Technical and vocational programs offered by Technological Industrial Training Centers ( <i>Centros de Capacitación Tecnológica Industrial – CECATI</i> ) or Job Training Institutes ( <i>Institutos de Capacitación y Adestramiento para el Trabajo - ICAT</i> ) | TA   |

5. **Sub-Component 1.3. Strengthening PROSPERA's Monitoring and Evaluation tools and strategy (US\$11.0 million).** Sub-Component 1.3 would support the strengthening of PROSPERA' monitoring and evaluation tools and Strategy, to build the evidence base that will be critical to assess the implementation of the Program's reforms to increase linkages with social and productive programs and adjust program design accordingly. In particular, Sub-Component 1.3 would provide technical assistance to: (i) update PROSPERA targeting and recertification methodology through inter alia: revising the targeting formula and monitoring PROSPERA beneficiaries that have concluded their participation on the Program; (ii) develop a digital platform containing information on PROSPERA beneficiaries and social and productive programs supply to support and monitor the implementation of the coordination models designed under Component 1.2; (iii) support the linkages and coordination between PROSPERA and the social and productive programs through, inter alia: the carrying out of studies and the production of evaluation reports, and data collection on the PROSPERA beneficiaries perception of the coordination between PROSPERA Program and social and productive programs; and (iv) carry out the evaluation of the long-term impact of the Program. Table A2.2 provides more detailed information on the specific support to PROSPERA monitoring and evaluation agenda.

### **Box A2.2. The 29 Social and Productive Programs**

PROSPERA is monitoring the number of beneficiaries participating in the 29 social and productive programs for which the operating rules have been changed to ensure prioritized access of PROSPERA beneficiaries. After the first few months of implementation (as of August 2014) the Program has been able to identify 465,842 beneficiaries already participating in *social* programs and 14,370 beneficiaries already participating in *productive* programs. The seven social and six productive for which there is available information allowing tracking at this stage are highlighted below (with \* social program and \*\* productive programs). As more information becomes available and program supply for PROSPERA beneficiaries grows, the records of participation in social and productive programs are expected to increase. Progress in increasing access of PROSPERA beneficiaries to the 29 programs below will be regularly reported as part of the monitoring for the Project (see Annex 1). It is important to stress that large social protection programs such as *Seguro Popular* were not included in the 29 given the universal nature of the benefit.

#### **National Commission for the Development of Indigenous Peoples:**

- *Program to Support Indigenous Education*;
- *Program for the Improvement of indigenous production and productivity*\*\*

#### **Ministry of Agriculture**

- Comprehensive Rural Development Program, including the Strategic Component for Food Security
- Program for the Promotion of Agriculture;
- Productivity and Competitiveness Program

#### **Ministry of Agricultural, Territorial and Urban Development (SEDATU)**

- *Fund for Agricultural Production Projects (FAPPA)*;
- Youth Support Program for Rural Business Productivity;
- *Support Program for Productivity of Women Entrepreneurs*\*\*
- Program for the Promotion of Rural Urbanization;
- *Housing for All Program*; \*
- *Rural Housing Program*\*

#### **Ministry of Education**

- *National Scholarship Program*\*

#### **Ministry of Economy**

- *Program to Promote Social Economy*\*\*
- National Fund for Entrepreneurship
- Microfinance Fund for Women in Rural Areas

#### **Ministry of Labor and Social Protection**

- *Program to Support Employment*\*\*

#### **Secretary of Social Development**

- Rural Supply Program (DICONSA)
- National Fund to Support Crafts
- Program for State Bodies that support Women
- Support to Migrants Program (3x1)
- Milk Supply Program (LICONSA)
- *Program to Support Agricultural Workers*\*
- Program for social co-investment
- Program for Temporary Employment
- *Childcare Facilities Program for Working Mothers*\*
- *Productive Options Program*\*\*
- *Social Pension (Programa de pensión para Adultos Mayores)*\*
- Program for the Development of Priority Areas
- Program for Life Insurance for Head of Households

### Box A2.3 Changes to the operational and coordination structures of PROSPERA

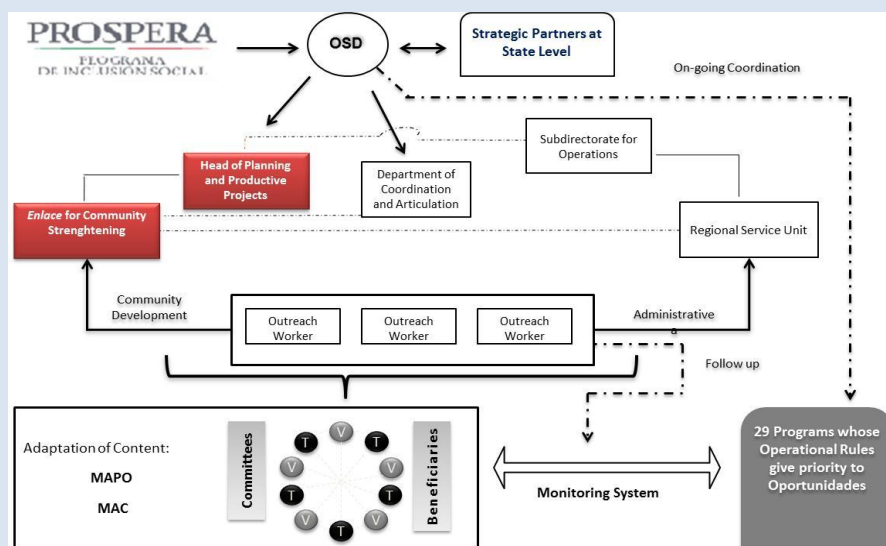
**Operational structure enhancement.** As a result of the decision to expand the responsibilities of the national flagship conditional support Program to include promoting greater access of its beneficiaries to complementary social and productive programs, the Program is revising its operational structure and has introduced dedicated figures at the State and Regional Service Unit levels to provide these services (see Figure A2.2). The Heads of Planning and Productive Projects (*Jefes de Planeación y Proyectos Productivos*) at the state level, and the Community Strengthening liaison staff (*Enlaces de Fortalecimiento Comunitario*), at the Regional Service Unit level, are responsible for carrying out all activities related to informing and facilitating access of beneficiaries to complementary services. Moreover, since direct contact with beneficiaries and community level engagement will be key for the success of this approach, the *Enlaces de Fortalecimiento comunitario* will work in close collaboration with the most decentralized personnel of the Program - the Outreach Workers (*Responsables de Atención del programa*) – as well as the existing beneficiary committees (*Comites de promoción comunitaria*) at the local level.

At the local level, the Program aims at strengthening community participation as part of a bottom up approach to productive inclusion. Community committees will meet regularly to support better planning of interventions which will benefit the beneficiaries, as well as constantly monitor their execution.

**Capacity building and Communication.** To support the enhancements to the operational structure, the program plans to develop and roll out a plan for continual capacity building of operational staff at all levels (*Plan de Capacitación Permanente*). The objective is to equip staff with the tools to manage change, and ultimately provide beneficiaries with better information, increasing their satisfaction with service and the impact of the program as a whole. This will be accompanied by an enhanced communication strategy with the beneficiaries.

**Inter-sectoral and inter-governmental Coordination.** In addition, to facilitate coordination, the Program is planning to create dedicated inter-sectoral Technical Committees for Employment, Income and Savings (*Comités técnicos de empleo, ingreso y ahorro*) at the federal, state and local level, mirroring the existing Education, Health and Finance Technical Committee currently responsible for coordinating actions among actors involved in the implementation of sectoral programs and policies.

**Figure A2.2. Operational structure of PROSPERA at State level, 2014**



Source: PROSPERA, General Directorate for Operations, where OSD refers to PROSPERA State level Delegation, MAPO and MAC to the beneficiaries' community meetings to discuss about relevant topics related to the Program (corresponsabilities, health, education and in the future labor insertion etc), V to the focal points among beneficiaries families (*vocales*) and T to the beneficiary household representatives for the Program (*titular*).

**Table A2.2 – Proposed TA and Evaluations- Component 1.3.**

| Activity  | Objective  | Details  | Type                                     |
|---|--|--|--|
| (i) Targeting and recertification   | Identify household characteristics associated with entry and exit from the Program                       | Updated targeting and recertification methodology and continue monitoring of families that have exited the Program as a result of the recertification process, to define the criteria and strategy for exit the families of the Program  | Data collection, studies                 |
| (ii) Data Services and Integration Platform   | Build evidence to support PROSPERA' linkages with social, productive and labor market insertion programs | Development of a Data and Services Integration Platform that provides the necessary information on beneficiaries and program supply to plan and monitor implementation of the coordination/linkage model. This would include the development of the database that harmonizes historical data on beneficiaries' socioeconomic condition and the inventory/mapping of the existing supply of programs and services <sup>46</sup> | TA, studies, data collection             |
| (iii) Studies and evaluations to support linkages with complementary programs, including perception surveys                 |  | Evaluation of pilots of different coordination/linkage models with varying degrees and modalities of technical assistance for PROSPERA beneficiaries   | Evaluation                               |
|   |  | Analysis and evaluation of pilot interventions to promote linkages with labor market intermediation and job training programs  | Studies and Evaluation                   |
|   |  | Evaluation of innovations introduced in education co-responsibilities with the objective of increasing upper secondary attendance and completion, such as the inclusion of an incentive to pursue upper secondary certification (e.g. CENEVAL <sup>47</sup> ) for students that have attended part-time or home-based schooling (“ <i>modalidades no escolarizadas</i> ”)  | Evaluation                               |
|   |  | Study documenting the experience of PROSPERA with the linking strategy with social and productive programs, and identify best practices to improve the linkages mechanism over time  | Study                                    |
|   |  | Study reviewing the budgetary and capacity implications of responding to the needs of an effective coordination/linkages strategy  | Study                                    |
| Perception survey to provide early feedback on the implementation of the coordination model and its impact on beneficiaries |  | Data collection, study   |  |
| (iv) Evaluation of long-term impact   | Assess the Long-term impact of the Program and inform future strategies                                  | Support the long term impact evaluation of the program. In a first instance the Project will provide analyses of administrative data to support the definition of the methodology for this evaluation, and data collection   | Study and possibly panel data collection |

<sup>46</sup> The Data and Services Integration Platform will be developed to be fully compatible with the SIS supported under Sub-Component 2.1.

<sup>47</sup> CENEVAL (*Centro Nacional de Evaluación para la Educación Superior*) is an institute that provides certificate for traditional (not for technical) upper secondary education. Having this certificate is a requirement for entering into a university in Mexico.

6. **Component 2 – Strengthening the social protection system (US\$31.6 million).** The objective of the second Component is to support SEDESOL in the development of new technologies and policies that will allow for better planning of social and productive interventions based on the needs of the population, improving efficiency and effectiveness of spending. This Component will provide the support to the development of two key tools for an integrated social protection system: (i) an integrated Social Information System (for details on system integration tools, see Box A2.4), and (ii) a Regional Social Development Strategy (RSDS).

**Box A2.4: How an Integrated Social Information System (SIS) supports the Social Protection System.**

A social protection system can be understood as a management model that brings together the demand for social interventions with available supply, to support the population in coping with the risks they are exposed to throughout their life cycle. A set of management tools are necessary to operationalize the model; these can be classified into three categories: (i) tools that provide detailed and updated information on system demand (the social and economic needs of the populations, beneficiary coverage, geographical location of the population needs); (ii) tools to manage supply, including databases on existing programs and services, and operational mechanisms to link supply to demand; and (iii) institutional tools, including a mapping of institutional actors responsible for each population risk, explicitly defined coordination processes, and financing for inter-institutional collaboration. The information tools should be brought together in an integrated Social Information System (SIS), and an interoperable platform that allows for demand, supply, and institutional information to be jointly monitored and analyzed. Recent progress in the social protection arena has been marked by the continuous development of SIS.

A SIS differs from program-level schemes and platforms for managing information in both the structure and its uses. The SIS is technological platform where databases and applications from various sectors and actors co-exist such that information can be retrieved, analyzed, and reported across databases. In terms of social protection, an integrated SIS can serve several purposes, for example: (i) providing timely information about a shortage of services to cover populations demands in a specific geographical area, which highlights potential targeted areas for new services; (ii) showing overlaps in program targeting thereby enabling a more efficient allocation of social spending; (iii) facilitating coordination among social actors who offer programs addressing the same social risk; (iv) supporting monitoring and evaluation of the social protection system; and (v) empowering system users to play an active role in access to public information.

7. **Sub-Component 2.1. Developing and implementing an integrated social information system (US\$25.0 million).** Until now several programs in SEDESOL administer separate socioeconomic and demographic questionnaires to potential beneficiaries. The information collected is managed independently by each program through their own information system for targeting, delivery and monitoring purposes. The objective of this Sub-Component is to support the Government effort to harmonize data collection, data sharing and targeting, and integrate programs information systems to be used for evidence based policy. This will be done through the development of an integrated Social Information System with three key functions: (i) registration, (ii) targeting, and (iii) monitoring and evaluation (see Box A2.5). SEDESOL has already made some progress in this direction, having created social, statistical and geo-referenced information by sectoral entities and by individual programs. While advances have been significant they have not yet culminated in an integrated technological platform that permits analysis and policy harmonization adequate to best support the New Generation Social Policy.

**Box A2.5. The three functions of an integrated SIS in Mexico.** The integrated Social Information System is an interoperable platform that integrates social information and databases from various sectors and actors so that it can be retrieved, analyzed and reported for policy making purposes. In Mexico, the SIS serves three main functions: (i) registration, (ii) targeting; and (iii) monitoring and evaluation. Each of these functions is supported by specific tools which are described below.

**1. Registration: to maintain an updated database of potential and current beneficiaries and of program supply**

**Social Registry (SR).** The SR is a registry of non-eligible, potential, active and non-active beneficiaries. The registry is populated based on the information collected from periodic surveys designed to capture data on the socio economic characteristics of the population, primarily of the poor and vulnerable, in order to identify potential social programs beneficiaries. The objective of the SR is to maintain updated information of potential and current beneficiaries of social programs.

**Unique Registry of Beneficiaries (URB) (*Padrón Único de Beneficiarios*).** The URB is an integrated database of all beneficiaries of social programs and the benefits they receive. It is populated matching information from each individual program's registries. Federal programs (via their Operating Rules) have committed to share their beneficiary registry with the URB, with the goal of identifying coincidences (duplications and complementarities) among interventions at each level and between levels of government.

**Social Programs Catalogue.** A public Social Programs Catalogue is necessary to maintain updated information on the supply of federal and state programs, including at least the 90 priority programs of the CNCH. This Catalogue informs about the goals, selection criteria, benefits, among other characteristics of social programs, and allows for the identification of target population, or duplications and complementarities amongst them.

**2. Targeting: to classify potential beneficiaries according to their level of vulnerability, apply eligibility criteria and identify target population for programs.**

**Single algorithm (*Modelo Unico de Categorización, MUC*):** SSPEDR is developing an algorithm that would capture not only the lack of income but also additional social deprivations and their intensity degree, as well as factors such as the existing supply of programs. Once finalized and as part of the SIS, this single targeting measurement would be used by all social programs to target potential beneficiaries.

**3. Monitoring and reporting: to inform management processes and provide public reporting on social information**

**Monitoring dashboard.** A monitoring dashboard will keep track of operational processes.

**Reporting through Business Intelligence (BI) software.** The BI software will allow easy and dynamic retrieval, analysis, and reporting of the data for policymakers.

**Geographic Information System (GIS).** The GIS is an instrument that will allow to analyzing, retrieving and visualizing statistical and geographical information from various sources.

In addition, to support users of the Social Information System SEDESOL will develop a **SIS E-learning** platform.

**8. The Project will support SEDESOL's efforts to develop an integrated SIS.** Sub-Component 2.1 would support the design, development and implementation of an integrated Social Information System (SIS). This technological platform will integrate, administer and exploit the socioeconomic data of beneficiaries and information on the supply of social programs that will enable better planning, coordination and targeting of social policy. This Sub-Component would support the following activities: (i) carrying out an assessment of the current ICT infrastructure needs for the development of the SIS; (ii) developing the SIS; (iii) supporting the implementation of the SIS, through, *inter alia* the acquisition of software and the provision of ICT services; (iv) developing an operational manual documenting the processes involved in the operation of the SIS; (v) developing capacity building mechanisms for the use of the SIS including, *inter alia*, the development of capacity building software; and (vi) reviewing the

existing legal framework and development of protocols for the exchange of information through the SIS among the Borrower's ministries and agencies responsible for the implementation of social and productive programs. Table A2.3 provides more detailed information on the specific support to the various tools for the SIS.

**Table A2.3 – Proposed support to the development of an integrated SIS- Component 2.1.**

| Activity  |  | Objective   | Details  | Type             |
|---|--|---|--|------------------|
| Architecture for the SIS  |  | Define the architecture required to develop an integrated SIS   | Assess the existing platforms, challenges in linking the datasets, the appropriateness of existing software, and existing protocols for sharing information  | TA               |
| Design/<br>Develop/<br>implement<br>tools for an<br>integrated<br>SIS,<br>including<br>the<br>required<br>ICT<br>services <sup>48</sup> | Social Registry (SR)                   | Integration of a database with socioeconomic information on potential recipients of social programs             | Development and implementation of the platform required for the SR   | TA, ICT services |
|   | Unique registry of beneficiaries (URB) | Integration of an integrated database of beneficiaries of social programs                                       | Development of the platform required for the URB, including the interoperability tool for integration and validation of information derived from exchanges between SEDESOL and other social programs | TA, ICT services |
|   | Social Programs Catalogue (SPC)        | To maintain updated information on the supply of federal programs   | Development of the platform for the SPC  | TA, ICT services |
|   | Algorithm/ Targeting mechanism (MUC)   | To capture the living conditions of households and facilitate prioritization in their access to social programs | Assessment and update of the current targeting mechanism, and development of its functionality, implementing the business intelligence tools for its identification                                  | TA, ICT services |
|   | Monitoring Dashboard                   | To inform management and decision making processes  | Hardware and software for the implementation of a monitoring dashboard   | TA, ICT services |
|   | Business Intelligence (BI)             | To allow easy and dynamic consultation of the data in the integrated SIS  | Development, implementation and administration of the BI tool  | TA, ICT services |
|   | Geographic information system (GIS)    | To visualize and analyze statistical and geographical information from various sources                          | Development, implementation and administration of the GIS integrated with the BI   | TA, ICT services |
| Operational manual for the operation of the SIS   |  | Systematically define the operation of the system   | Development of the operational manual for use of the SIS   | TA               |

<sup>48</sup> Where the ICT services will include the provision of hardware and software.

| Activity   | Objective   | Details  | Type             |
|--|---|--|------------------|
| The legal framework and protocols for sharing of information and for data security | Ensure clarity on the roles and responsibilities for sharing information and clear guidelines on the confidentiality of the data  | Review legal norms for IT and develop new norms that may be necessary for the sharing of information and for securing functionality of the SIS | TA               |
| E-learning   | To provide flexible, constant and low-cost capacity building, not only on the how-to of the system but on how to maximize its use | Development, implementation and administration of the e-learning platform  | TA, ICT services |

9. **Sub-Component 2.2. Supporting the development and implementation of SEDESOL’s Regional Social Development Strategy (RSDS) (US\$6.6 million).** The New Generation Social Policy calls for a more tailored approach to social development, where local and regional needs are the driving force for integrated interventions at the community level.<sup>49</sup> SEDESOL has been given the responsibility for the coordination and oversight of federal funds destined for social spending, which includes funds from various sources outside of SEDESOL,<sup>50</sup> with the objective of helping the local authorities design more strategic and efficient social interventions. Currently, SEDESOL does not have a presence at the regional level and thus plans to develop a Regional Social Development Strategy (RSDS). The Strategy is intended to guide SEDESOL activities, staffing, and operations to fulfill its new responsibility to support integration, planning and coordination of social interventions at the local and regional levels.

10. **In particular, this Sub-Component would support SEDESOL by providing technical assistance to develop a Regional Social Development Strategy and the tools that will be needed to implement said strategy.** More specifically, this Sub-Component would support the following activities: (i) carrying out diagnostic studies to identify the challenges facing localities in the development of social interventions and the role that SEDESOL could play, as input to the RSDS and develop the RSDS based on the recommendations of the diagnostic studies; (ii) defining SEDESOL’s organizational structure needs to implement the RSDS; (iii) developing of institutional capacity to support SEDESOL’s implementation of the RSDS including, *inter alia*, the development of capacity building modules and related software; (iv) developing the technological infrastructure required to obtain and analyze information on the supply of social programs and the social needs of the population at the local and regional levels; and (v) developing and implementing a monitoring and evaluation system for the RSDS including, *inter alia*, the acquisition of software and hardware and the provision of ICT services. More details are provided in Table A2.4.

<sup>49</sup> The terms “local” and “regional” are necessarily used in order to not limit the strategies to the municipal level but to encourage collaboration among municipalities and economies of scale.

<sup>50</sup> Such as the reform of the FAIS (*Fondo de Aportaciones a la Infraestructura Social*) a federal fund that assigns resources to states and municipalities for social spending regulated by the Fiscal Coordination Law. The guidelines for the expenditure of FAIS were changed in February 2014 to limit the categories that the resources could be used for, aligning their distribution to a formula that uses multi-dimensional poverty measures and requiring planning and regular information and monitoring reports.



**Table A2.4 – Proposed TA for the Development and Implementation of the RSDS-Component 2.2.**

| <b>Activity</b>   | <b>Objective</b>   | <b>Details</b>   | <b>Type</b>                      |
|---|--|--|----------------------------------|
| (i) Diagnostic of social programs and their operational structure | Identify best practices and challenges in the current process for local social policy design as inputs to SEDESOL's development of their Regional Social Development Strategy and the related operational model (staff, operating norms) for SEDESOL to implement the activities defined in the RSDS to support local coordination/linkage efforts | Diagnostic studies, e.g.: collection and analysis of data on social spending patterns, distribution and efficiency vis-à-vis regional and local level needs          | TA, and possibly data collection |
| (ii) Definition of Regional Operation Model                       | Define of the new organizational structure. This will also include specifying the responsibilities of SEDESOL personnel and the local actors, including municipal authorities, as well as how they should carry out their duties (operational manual).   | Study to develop an operational model to implement the RSDS, study to define the responsibilities of the Regional Coordination bodies required to implement the RSDS | TA                               |
| (iii) Institutional Capacity Building                             | Develop tools to support staff's awareness and understanding of the new approach (objectives, implementation) as well as methods for carrying out their new role   | Development of the content for capacity building material and tools (e.g. e-learning)  | TA                               |
| (iv) Technological infrastructure                                 | Provide decision makers at federal, state and local levels with necessary information to develop their respective regional social development plans  | Design and development of a data platform to capture data and statistics on social indicators and policy   | TA                               |
| (v) Monitoring and Evaluation                                     | Provide evidence-base to inform decision making and allow feedback and early correction during implementation  | Design, development and implementation of a monitoring and evaluation system for the RSDS  | TA, ICT services                 |

## **Annex 3: Implementation Arrangements**

### **MEXICO: Social Protection System**

#### **Project Institutional and Implementation Arrangements**

1. **The implementation of the Project would be carried out by two -agencies: a) the National Coordination of PROSPERA (*Coordinación Nacional de PROSPERA, CNP*); and b) the Ministry of Social Development (*Secretaría de Desarrollo Social –SEDESOL*).** The CNP will be responsible for the implementation and day-to-day oversight of Components 1, and SEDESOL (through the SSPEDR and the OM) will be responsible for Component 2. This Annex provides an overview of institutional and implementation arrangements for the Project.

#### **Implementing Agencies**

2. ***National Coordination of PROSPERA.*** At the federal level, seven institutions participate in the operation of PROSPERA: (i) SEDESOL, which is responsible for the general coordination of PROSPERA through the National Coordination of the Program, (ii) Ministry of Education (*Secretaría de Educación Pública-SEP*), (iii) Ministry of Health (*Secretaría de Salud-SS*), (iv) the Mexican Social Security Institute (*Instituto Mexicano de Seguro Social-IMSS*), (v) Ministry of the Economy (*Secretaría de Economía*), (vi) Ministry of Agriculture; and (vii) Ministry of Labor and Social Security (*Secretaría de Trabajo y Previsión Social*). The CNP is headed by a President appointee and works with a Council<sup>51</sup> and a Technical Committee to carry out its functions. The Council authorizes policies on coordination, monitoring, supervision, and evaluation; defines operational strategy; reviews results and make recommendations for improvements; and, if proposed by members, revises and can modify decisions of the Technical Committee. Through its Technical Committee, the CNP is responsible for overall coordination and operation of PROSPERA, and has the following specific roles: (i) approve the operational rules and any modifications, (ii) supervise the Program, (iii) adapt measures to ensure efficient and transparent operation of the Program, and (iv) review the performance of the agencies participating in the Program and facilitate their coordination.

3. ***SEDESOL.*** SEDESOL, the Ministry of Social Development is in charge of social development policy in Mexico. The Minister is a member of the Executive Cabinet and is appointed by the President. SEDESOL is also responsible for general coordination of PROSPERA through the CNP; and the CNP reports directly to SEDESOL, but has technical and operational autonomy. For the specific purpose of the Project, two entities in SEDESOL will be responsible for implementation: the Vice Ministry for Planning, Evaluation and Regional Development (*Subsecretaría de Planeación, Evaluación y Desarrollo Regional - SSPEDR*) and the Finance and Administration Unit (*Oficialía Mayor – OM*).

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<sup>51</sup> Secretaries of SEDESOL (head), of Finance and Public Credit, Education, Health, Ministry of Agriculture, Ministry of Economy, Ministry of Labor and the National Coordinator.

4. **Financial Administration.** The National Financing Agency (NAFIN) will act as financial agent of the Borrower with regard to the investment Loan. In that capacity, NAFIN will manage loan disbursement processes and provide other implementation support and oversight, based on its many years of experience with Bank financed projects.

5. **Over the past five years, the National Coordination of PROSPERA has built considerable expertise in implementing World Bank financed Project** with the operation *Support to Oportunidades* (Lns. 7708-MX, 7968-MX/P115067), and has consolidated and strengthened its systems for overall management and monitoring and evaluation. SEDESOL has not been involved in Bank financed operations before. Therefore, this is likely to pose some implementation challenges given the somewhat complex implementation arrangements with two co-implementing agencies and NAFIN as financial agent, while SEDESOL familiarizes itself with World Bank procedures.

#### **Project administration mechanisms**

6. **The Operational Manual for the Project will specify detailed implementation arrangements, including specific information on roles and responsibilities of each implementing agency** (e.g., preparation of periodic progress reports, or updating of implementation plans), as well as details regarding the performance of fiduciary functions (financial management and reporting, procurement). The CNP, through its Administration and Financial Affairs Directorate, will act as focal point/Project coordinator vis-a-vis the World Bank to channel submission in a timely manner of periodic progress reports, the annual operational plan and budget for the Project, yearly audit reports, etc.

#### **Financial Management, Disbursements and Procurement**

7. **Financial Management (FM).** FM Risk for this Project is Substantial. From the operational perspective the Program poses considerable implementation challenges due to the complex implementation arrangements which involve a number of actors.

8. **The part of the Project implemented by PROSPERA (Component 1) comprises provision of technical assistance, equipment, and non-reimbursable contributions to PROSPERA beneficiaries** which are paid nationally through a number of entities, entailing a complicated process of flow of funds and information. These entities are CNP , including its central offices and state-level coordination offices, and BANSEFI as financial intermediary in charge of delivering contributions to beneficiaries with the support of subcontracted services from other institutions such as Diconsa (a system of public retail outlets for basic commodities), the *L@ Red de la Gente*<sup>52</sup> network and selected gas stations. The part of the Project implemented by SEDESOL (Component 2) comprises provision of technological infrastructure and technical assistance.

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<sup>52</sup> *L@ Red de la Gente* is an alliance between BANSEFI and 244 entities, mainly to offer selected banking services to customers that traditionally do not have access to formal financial services.

**9. The FM risk is mitigated through various measures divided in three main layers of control:**

- **Country level mitigating measures.** The overall strong country public FM arrangements will be applied to this Project as it will be integrated into the national budget which operates under a comprehensive and well established legal framework. The Bank will reimburse eligible expenditures recorded under earmarked budgetary lines and NAFIN will be the project's financial agent providing operational support and oversight.
- **Program level mitigating factors.** There are well defined operating rules governing the program, which include strict eligibility criteria for selecting beneficiaries, clear rules for transferring the money, document the program's expenditures, and for the program oversight.
- **Entities level mitigating measures.** In general terms the entities within the Federal Government in Mexico operate under an adequate internal control environment with sound financial and operational systems and well defined procedures. In terms of the PROSPERA Conditional Support Component, CNP has a strong system of checks and balances in place aimed at ensuring that non-reimbursable contributions are transferred to the eligible beneficiaries.

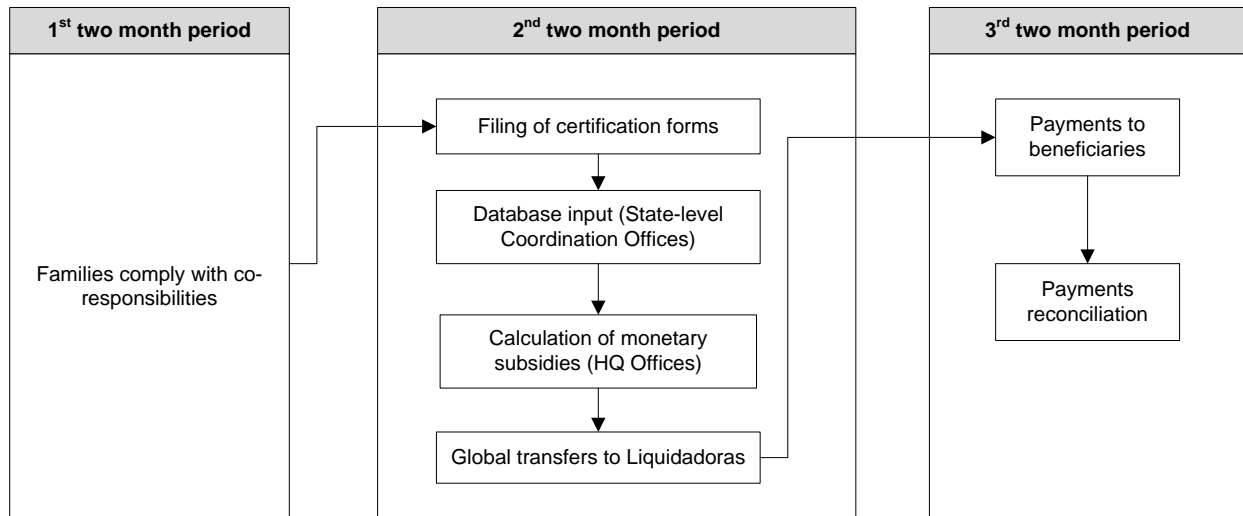
Furthermore, the Bank will provide capacity building, and will conduct periodic supervision visits in addition to the required semi-annual unaudited financial reports and annual audit to the Project's financial statement, which will be conducted under terms of reference and by an external auditor acceptable to the Bank.

**10. Financial reporting.** The accounting cycle will be divided in two phases: (i) first, since the expenditures under the Project will be pre-financed using the Government budget, CNP and SEDESOL will first prepare their individual accounting records using the national accounting and budgeting system (*Sistema de Contabilidad y Presupuesto, SICOP*); and (ii) second, SEDESOL will send on a monthly basis financial reports to CNP, who will consolidate the financial information using the CONTPAQ accounting system, which is a commercial software with adequate capabilities to recognize different levels of accounts and issue financial reports. With the information provided by SEDESOL, CNP will prepare bi-annual interim financial unaudited reports and the project's annual financial statements which will be audited by an independent audit firm selected by *Secretaria de la Función Pública (SFP)* under terms of reference acceptable to the Bank.

**11. Internal control and internal auditing.** In addition to the country's budget regulations and procedures, CNP and SEDESOL are subject to the Federal Public Administration Internal Control Standards issued by the SFP, which as a whole provide for sound internal control arrangements for the Project.

**12. The internal auditing** function is carried out by their respective Internal Control Units (OIC), which report to SFP and must follow the Public Audit Standards and Guidelines issued by SFP. The latter also approves the OICs' annual work programs, oversees their operation, and receives their audit reports. Good systems are in place for timely follow-up to internal audit observations and implementation of recommendations.

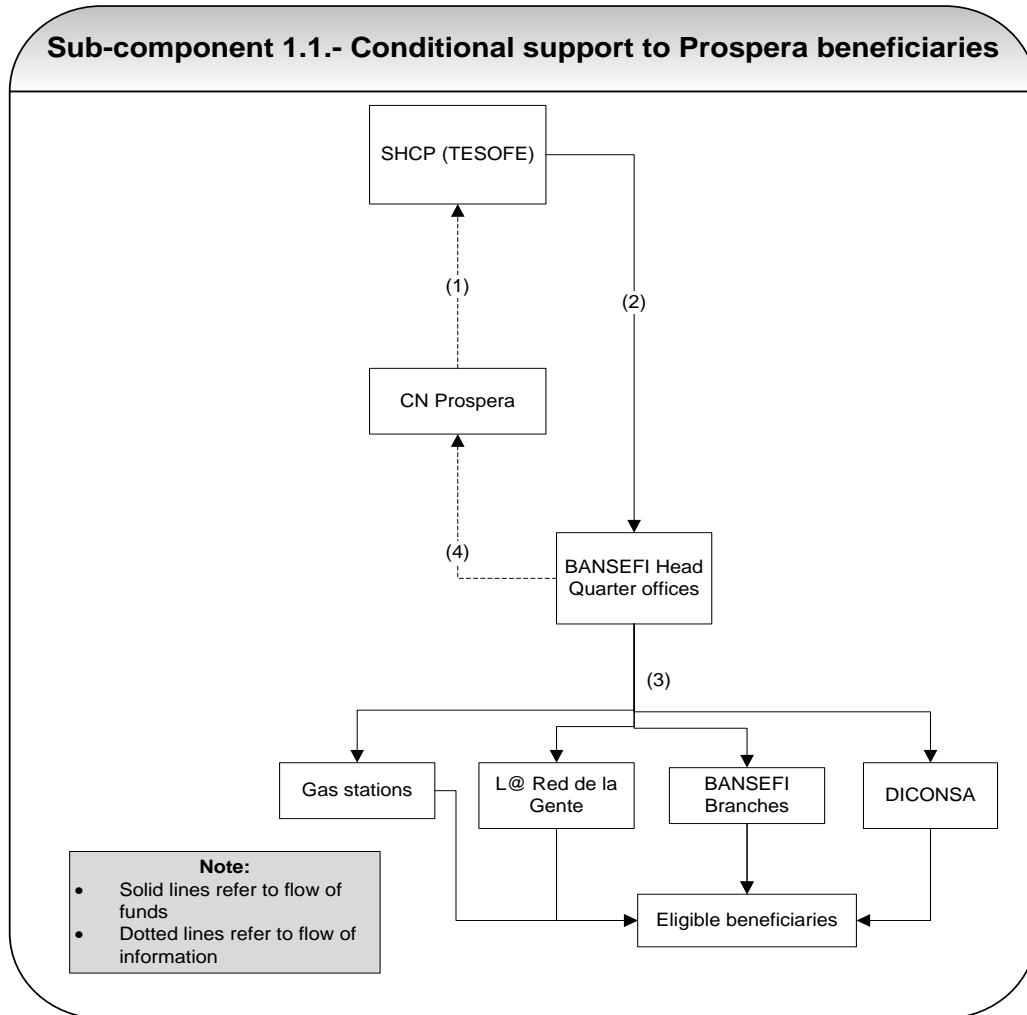
**13. Description of controls applicable to provision of non-reimbursable contributions (Conditional Support).** CNP conducts various conciliatory processes aimed at providing assurance that the monetary subsidies are delivered to the program’s beneficiaries. For this purpose it conducts a “1-2-3” calendar exercise whereby the overall process for integration and payment of contributions requires cycles composed of three bi-monthly periods, as follows:



**14. In addition, CNP has implemented various measures to ensure the identity of beneficiaries,** which include the use of debit cards with a chip containing the beneficiaries’ information, and their previous identification using digital prints previous to allow them to withdraw the money.

**15. Flow of funds.** The general flow of funds arrangements are described in the following charts and explained below. Due to its complexity it has been subdivided in 3 figures: Figure 1 describes the flow of funds for the CS component under Sub-Component 1.1. Figure 2 describes the flow of funds for payments different from non-reimbursable contributions under Component 1, namely technical assistance and the technological platform under sub-components 1.2, 1.3 and 2. Figure 3 describes the flow of funds concerning the reimbursement of eligible expenditures pre-financed by the Government (as per Figures 1 & 2).

Figure 1

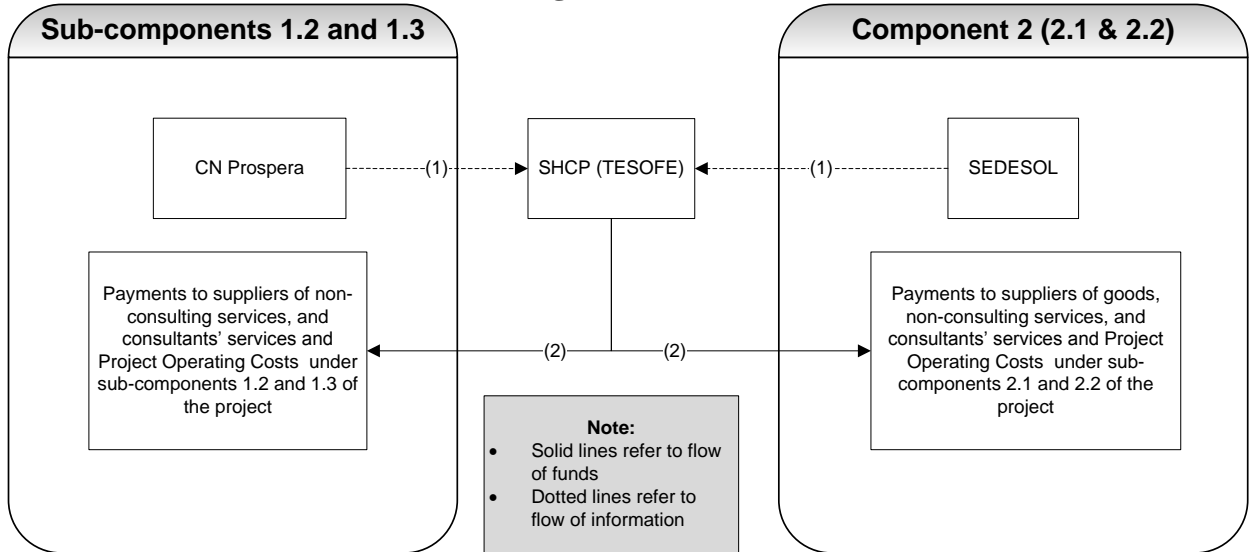


1. Based on the budget approved annually by the Congress CNP<sup>53</sup> will instruct the Federal Treasury (TESOFE by its acronym in Spanish) to transfer funds by issuing payment instructions (*Cuentas por Liquidar Certificadas*.- CLCs) under the Single Treasury Account system (STA).
2. For payments under Component 1.1 of the Project (subsidies under the PROSPERA program), TESOFE will transfer resources to BANSEFI central office.
3. BANSEFI will be the financial intermediary (*agencia liquidadora*) for the Program and a relevant amount of the payments will flow through its own branches; however, in order to reach out a broader geographical area, it has subcontracted different payment channels such as gas stations, *R@d de la Gente* branches, and Diconsa stores, which together will make payments to the PROSPERA program beneficiaries.

<sup>53</sup> For the CS related to education the budget will be contributed by the Ministry of Education (*Secretaria de Educación Pública* by its name in Spanish).

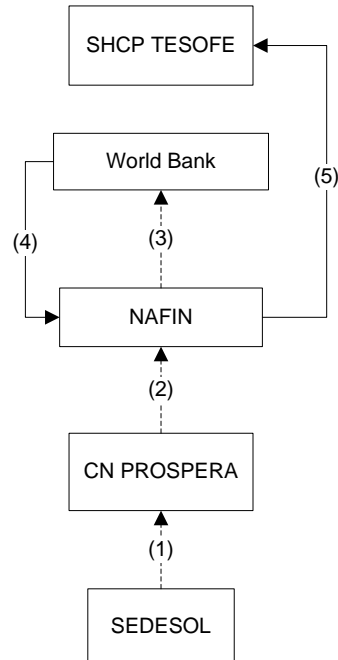
4. After making payments BANSEFI will present the data bases with the related information to the PROSPERA central offices who will conduct the reconciliatory process as described earlier.

**Figure 2**



1. Based on the budget approved annually by the Congress CN PROSPERA and SEDESOL will separately instruct the TESOFE to make payments by issuing payment instructions (*Cuentas por Liquidar Certificadas*.- CLCs) under the STA.
2. After receiving the corresponding CLCs, TESOFE will pay to providers of goods and services under Components 1.2, 1.3 and Component 2 of the Project.

**Figure 3**



**Note:**

- Solid lines refer to flow of funds
- Dotted lines refer to flow of information

1. After making payments under component 2 (Figure 2), SEDESOL will submit on a monthly basis to CNP the Project financial and disbursement reports reflecting the part of the Project executed by this entity.
2. The FM Project Unit within CNP will prepare its own financial and disbursement reports reflecting the execution under Component 1, and with the information provided by SEDESOL will prepare consolidated financial and disbursement reports, which will be presented to NAFIN.
3. NAFIN will review and submit the Statement of Expenditures (SOEs) to the Bank through the client connection system.
4. The Bank will reimburse the eligible expenditures into the Project account designated by NAFIN.
5. NAFIN will reimburse the program funds to TESOFE.



**16. Disbursement arrangements.** The investment loan disbursement arrangements<sup>54</sup> are hereby summarized:

|                          |  |
|--------------------------|--|
| Disbursement method      | Reimbursement of eligible expenditures (pre-financed by the Government) into a Project account in US\$ designated by NAFIN.  |
| Supporting documentation | SOEs <sup>55</sup>   |
| Retroactive expenditures | The Project may finance eligible expenditures that comply with the following conditions: <ul style="list-style-type: none"> <li>▪ Not exceeding US\$ 5 million.</li> <li>▪ Made by the borrower after August 19, 2014 (appraisal date).</li> <li>▪ The retroactive expenditures will be subject to the same systems, controls and eligibility filters described above in this Annex. Those expenditures will also be subject to the regular Project external audit (see below).</li> </ul> |
| Other procedures         | Other disbursement procedures are not expected to be required; however, upon request from NAFIN and subject to Bank's approval, direct payments may be made for eligible expenditures to a third party (supplier or consultant).   |

## Procurement

**17. SEDESOL and CNP will be responsible for the bidding processes** (including the preparation of the bidding documents, ToRs, and the signature and administration of the contracts) for all procurement financed by the Project under their respective components (SEDESOL for Component 2 and CNP for Sub-Component 1.2., and Sub-Component 1.3). Component 1.1 does not have procurable activities as it includes non-reimbursable contributions to beneficiaries of the Program. The implementation of Sub-Components 1.2 and 1.3 will be supported by the CNP, an implementation unit with previous experience in Bank operations. For SEDESOL it will be the first WB financed operation and; therefore, it is expected that more support from the World Bank team, the co-implementing agency and NAFIN will be required.

**18. Procurement General Provisions.** Procurement will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011(revised July 2014); and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers", dated January 2011 (revised July 2014), and the provisions stipulated in the Loan Agreement. For each contract to be financed by the Project the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. An assessment of the procurement capacity has been conducted by the Procurement Specialist assigned to the Project. The mitigation measures agreed with the client include procurement training and the strengthening of the fiduciary team in SEDESOL and PROSPERA before the effectiveness of the Project.

<sup>54</sup> For details, please see the Disbursement Handbook for World Bank Clients.

<sup>55</sup> All SOE supporting documentation will be available for review by the external auditors and Bank staff at all times during Project implementation, until at least the later of: (i) one year after the Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the Closing Date. The Borrower and the Project Implementing Entity shall enable the Bank's representatives to examine such records.

19. **Selection of Consultants.** The technical assistance components will require a variety of consultant services. These will be procured following the Bank's policies and using Harmonized Documents.

- Short lists of consultants for services estimated to cost less than US\$3,000,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Universities, government research institutions, public training institutions and Non-Governmental Organizations (NGOs) in some specialized fields of expertise could participate in the provision of consulting services as per Bank procurement guidelines and policies. *Firms.* Most contracts for firms carried out by SEDESOL and PROSPERA are expected to be selected using Quality and Cost Based Selection Method (QCBS). Consultant assignments of specific types as agreed previously with the Bank in the Procurement Plan may be selected with the use of the following selection methods: (i) Quality Based Selection (QBS); (ii) Selection under a Fixed Budget (SFB), (iii) Least Cost Selection (LCS); (iv) Selection Based on Consultants' Qualifications (CQS), for contracts estimated to cost below US\$300,000 equivalent; and, exceptionally; and (v) Single Source Selection (SSS), under the circumstances explained in paragraph 3.9 of the Consultants' Guidelines. It is expected that PROSPERA will hire two academic institutions by SSS; the first – FLACSO - is a renowned international investigation center, and the second one - the Autonomous University of Chapingo (UACH) – is a public university. These two institutions have been collaborating with PROSPERA in the past and are considered the only institutions qualified for the tasks. The justification for SSS in each case has been analyzed by the Bank pursuant paragraph 3.9 (d) of Bank Guidelines and in the case of UACH also pursuant paragraph 1.13 (c).
- *Individuals.* Individual consultants will be hired to provide technical advisory and project support services and selected in accordance to Section V of the Consultant Guidelines.
- All single source selection of consultants will be subject to prior review.

20. **Goods and Non-consulting services:** National Competitive Bidding (NCB) will be using the Harmonized Documents. Small contracts for sundry goods will be generally procured through shopping (including price quotations from local suppliers).

21. **Project Incremental Costs:** Incremental Costs include reasonable incremental operating expenditures, based on an allocation previously approved, incurred by SEDESOL, required for an efficient Project implementation, administration, supervision, monitoring and evaluation, including costs of office operation and maintenance, but excluding salaries of SEDESOL's officials and public servants of civil services as set forth in the Operations Manual.

22. **Procurement plan.** The two implementing agencies have prepared a procurement plan for the first 18 months of implementation, which has been discussed during the appraisal mission and found acceptable by the Bank. The plan will be available in the Project's Procurement database and in the Bank's external website (*Sistema de Ejecución de Planes de Adquisiciones-SEPA*). The Procurement Plan will be updated in agreement with the Project team at least once a year, or as required to reflect the actual Project implementation needs and improvement in institutional capacity.

23. **Frequency of Procurement supervision.** In addition to the prior review to be carried out from Bank offices, the capacity assessment of the Implementing Agency recommends two supervision missions per year. One of these will include a post review of a sample of contracts not subject to prior review.

## **Environmental and Social**

24. **Indigenous people represent an important share of PROSPERA’ beneficiaries even though they are not a specific target group of the Program.** The coverage of municipalities with a high percentage of indigenous people increased from 47.3 percent in 2000 to 51.2 percent in 2013. Out of a total of 34,263 indigenous localities defined as indigenous by *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*(CDI), PROSPERA has reached 22,742, or 66 percent of the total. As a whole, indigenous beneficiaries represent 24.9 percent of PROSPERA’s total beneficiaries, and as a result OP/BP 4.10 has been triggered. In compliance with OP/BP 4.10, Indigenous Peoples, and national regulations, the Project includes an Indigenous Peoples Plan (IPP) to provide guidance to PROSPERA and SEDESOL on providing culturally appropriate services and activities in indigenous communities. In addition to continuing supporting non-reimbursable contributions to promote human capital investments for poor and vulnerable people, including indigenous people, the Project will promote income generation activities and employability by linking beneficiaries with productive and social development programs as means to reduce poverty. This will be achieved through coordinating the efforts of different ministries and the *Comisión Nacional para el Desarrollo de los Pueblos Indígenas* (CDI). The latter will specifically target indigenous people through existing CDI programs such as Indigenous Women, Tourism and Nature and Community Productive Projects. To increase the impact of PROSPERA on indigenous people, two specific sets of actions will be supported, as documented in the IPP:

- *Indigenous Communication Plan*, which is implemented by the National Commission of Social Protection in Health (*Comisión Nacional de Protección Social en Salud – CNPSS*) in support of PROSPERA beneficiaries in indigenous regions. This plan is intended to encourage health education, better nutrition, and self-care promoting a more flexible approach among health practitioners combining formal with traditional medicine and communities’ perspective on health.
- *Bilingual promoters*: To ensure better quality services for the target population the personnel of the program needs to be able to communicate with the beneficiaries and therefore in indigenous areas speak the same language as the beneficiaries. For that purpose PROSPERA as part of the Program *Promotores Bilingües* identified, recruited and trained personnel that could speak indigenous language and could be certified based on the national standard.<sup>56</sup> In addition, this Program is intended to develop a strategy to provide support to operational personnel in their interaction with indigenous beneficiaries in regions with a high percentage of indigenous population.

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<sup>56</sup> This certification is provided by the *Instituto Nacional De Lenguas Indígenas* (INALI) and by the *Consejo de Normalización y Certificación de Competencias Laborales* (CONOCER).

25. The implementation of the Indigenous Peoples Plan will also include: (i) a participation strategy presenting means and tools to enable indigenous peoples to benefit from project's components and defining outcome indicators accordingly; (ii) provisions for a culturally appropriate complaints mechanisms accessible to indigenous beneficiaries; and (iii) institutional arrangements for its implementation. Institutional arrangements will include agreements with other organizations, as in the case of the coordination with the CNPSS for the communication campaign and with the Indigenous Peoples National Commission (CDI) in regards to productive activities. The IPP was discussed prior to appraisal with the Secretariat of the Consultative Board of the Indigenous Peoples National Commission (CDI), and published in PROSPERA and SEDESOL webpages, as well as the World Bank website. CDI confirmed that the Project and its IPP are aligned with the consultations held with Indigenous People, Indigenous communities and afro-descendent conducted in the context of the preparation of the National Development Plan and the Special Program for Indigenous Population for 2014-2018 and fully consistent the Commission protocol for nationwide coverage of interventions. Other key stakeholders (e.g. from Civil Society) will be engaged in program implementation through the Consultative Council for Social Development.

26. In order to ensure effective implementation of the IPP the Bank team will count on the expertise of the social safeguard team throughout the implementation of the Project. Because of the *Support to Oportunidades Project* the client already has extensive experience in the culturally appropriate delivery of activities in indigenous communities, and in applying the World Bank's Policy on Indigenous People.

### **Project Monitoring and Evaluation.**

27. **The arrangements to monitor and evaluate this investment loan will be the joint responsibility of SEDESOL (SSPEDR) and CNP and will rely on existing well-functioning monitoring and evaluation systems.** The Project will also directly support the strengthening of the monitoring and evaluation of SEDESOL and CNP, particularly with respect to the new challenge of monitoring progress on the coordination/linkages innovative process and with the development of a Social Information System and the monitoring system for the regional social development strategy<sup>57</sup>.

28. **PROSPERA has a long-standing monitoring system.** From its beginning in the late 1990s the Program designed a monitoring system that would serve the multiple needs of its stakeholders. The information different stakeholders need is supplied by different data collection and reporting tools, including the Management Information System (MIS), the appeals and control system, social accountability systems, and beneficiary assessments. An operational component informs frontline and mid-level managers whether planned tasks are fulfilled in terms of quantity, quality of service, and efficiency. A strategic, results-based monitoring component

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<sup>57</sup> The Government of Mexico is holding discussions on the possibility to add to the Results Matrixes (*Matriz de Indicadores para Resultados, MIR*) of all twenty-nine federal social and productive programs an indicator capturing the number and percentage of PROSPERA beneficiaries reached. This would be an important step to support the linking strategy for the Program and will allow to constantly monitoring its progress on it.

informs upper-level management and external stakeholders whether beneficiaries' outcomes are improving or not.

29. **PROSPERA has three structures in place to monitor its operations and results.** The first structure, a system of monitoring and management indicators, has been in operation since 1998 and generates a set of 64 monitoring and management indicators every two months. The second structure, a survey of beneficiaries and program providers called sentinel points (*puntos centinelas*), has been implemented twice a year since 2000 and produces information on perceptions of service quality. This will be expanded in scope to include the perception survey on the linkage strategy. The third structure consists of regular assessments of Program operations by external experts using the monitoring and management data. The public has access to all data and assessments on the Program's website.

30. **PROSPERA has a long-standing and excellent record of rigorous evaluations.** From its conceptualization the conditional support program explicitly incorporated impact evaluation in its design. Mexico's started evaluating the early phases of PROGRESA from 1997. The Program's evaluation showed that it is a major social program with a positive impact in poverty levels, child labor, infant and maternal mortality and disease, adult illness and chronic disease, and higher school enrollment and completion. The agenda of evaluation for PROSPERA is part of a national effort to promote management for results and systematically monitor and evaluate public programs and it is defined every year with a group of international experts. The evaluation agenda will now include evaluations of the innovative process of linking PROSPERA beneficiaries to productive programs.

31. **SEDESOL's capacity to plan, monitor and evaluate programs' performances will be further enhanced by the Project.** The Project will develop two key instruments to allow SEDESOL to better monitor and evaluate its interventions: The integrated Social Information System, and the monitoring system for the regional social development strategy. These instruments will be key to improving effectiveness and efficiency of spending in social programs. Once implemented, those instruments will be able to regularly inform the Project's performance based on the indicators described in Annex 1.

## Annex 4: Operational Risk Assessment Framework (ORAF)

### Mexico: MX Social Protection System (P147212)

#### Risks

##### 1. Project Stakeholder Risks

|  |   |                     |                       |            |           |            |
|--|---|---------------------|-----------------------|------------|-----------|------------|
| <b>1.1 Stakeholder Risk</b>  | Rating  | Substantial         |                       |            |           |            |
| <p><b>Risk Description:</b></p> <p>Although the main stakeholders are aligned under the same vision for social assistance and inclusion, this may change in the future due to conflicting political interests between different Government levels and sectors.</p> | <b>Risk Management:</b>   |                     |                       |            |           |            |
|  | <p>There is strong leadership of SEDESOL and PROSPERA. Moreover, the Minister of Finance, together with the Minister of Social Development, have placed a high priority to the objectives of this Project. Additionally, the Government is already working towards a Social Protection System and a unified social assistance and inclusion vision. The Bank team will closely monitor this during implementation, to identify at an early stage the need for consensus-building at any time among stakeholders and to reduce the risk of not achieving the Project’s objectives.</p> |                     |                       |            |           |            |
|  | Resp: Both  | Status: In Progress | Stage: Implementation | Recurrent: | Due Date: | Frequency: |

##### 2. Implementing Agency (IA) Risks (including Fiduciary Risks)

|  |   |             |  |  |  |  |
|--|---|-------------|--|--|--|--|
| <b>2.1 Capacity</b>  | Rating  | Substantial |  |  |  |  |
| <p><b>Risk Description:</b></p> <p>1. There are two counterparts in charge of the Project’s implementation, CNP and SEDESOL. The latter has not implemented a Bank investment lending Project, thus, the lack of familiarity and experience with Bank procedures may slow down Project implementation.</p> | <b>Risk Management:</b>   |             |  |  |  |  |
|  | <p>1. The Ministry of Finance, through the subsidiary agreements (<i>Contratos de Mandato</i>) signed with the implementing agencies, poses a binding obligation to the executing agencies to carry out the commitments agreed in the Project. This Ministry and NAFIN will also contribute to build the implementation capacities of the executing agencies. The proposed Project is designed to support the institutional strengthening of SEDESOL (SSPEDR and OM) and PROSPERA, as well as key programs to ensure effective support to beneficiaries. The World Bank team will provide fiduciary and operational support to the implementing agencies at all stages and will carry out particularly at an initial state more frequents missions.</p> |             |  |  |  |  |

|   |  |                     |             |            |           |             |                                |
|---|--|---------------------|-------------|------------|-----------|-------------|--------------------------------|
| <p>2. The Project is complex from an operational perspective; it includes a large number of complicated activities to be financed, including the disbursements of non-reimbursable contributions to PROSPERA beneficiaries and the procurement of technological infrastructure. Technical assistance involved in Components 1.3 and 2 could result in significant delays in implementation.</p>   | Resp: Both   | Status: In Progress | Stage: Both | Recurrent: | Due Date: | Frequency : |                                |
| <p><b>Risk Management:</b></p> <p>2. CNP has demonstrated adequate institutional capacity to reasonably ensure that FM and Procurement arrangements are properly complied with. CNP has in place a solid internal control system for reconciliation of payment information as well as an administrative department with a suitable infrastructure of operational and financial management systems that have demonstrated to work well in the past and will be adequately staffed throughout the Project and will then continue to be strengthened as needed. Other mitigating measures will include periodic capacity building sessions for the FM and Procurement staff units, a communication strategy that identifies needs and provides specific technical assistance, and periodic supervision. Experienced staff on World Bank's procurement policies and procedures will be appointed and retained to support the implementation of the Project directly in Mexico.</p> <p>Additionally, the Finance Ministry and NAFIN will help supervise and aid in implementation of the agreed fiduciary arrangements of the Project.</p> |  |                     |             |            |           |             |                                |
| <p><b>2.2 Governance</b></p>  |  |                     |             |            |           |             | <p>Rating      Substantial</p> |
| <p><b>Risk Description:</b></p> <p>1. Limited coordination and timely collaboration among Project Implementation agencies and partners: sharing of information among the various programs and partners in implementation might not be sufficient to ensure effective coordination given that the approach is new, which could delay appropriate decision-making and hinder implementation effectiveness.</p>  | <p><b>Risk Management:</b></p> <p>1. The Project operation manual includes a mandatory section on policies and processes for sharing of information among partners which will be diligently put in place, monitored and adjusted as needed during implementation. PROSPERA and SEDESOL will organize regular meetings with partners under this Project to ensure effective coordination and timely responses. SEDESOL and PROSPERA will also update their Agreements of collaboration with the different institutions and collaborate with the different institutions for the revision of the Operating Rules of the different programs. The task team, during supervision missions, will follow up on the results of these agreements and meetings.</p> |                     |             |            |           |             |                                |
| <p>Resp: Client      Status: In Progress      Stage: Implementation      Recurrent:      Due Date:      Frequency :</p>   |  |                     |             |            |           |             |                                |

|   |  |                     |             |           |           |             |
|---|--|---------------------|-------------|-----------|-----------|-------------|
| <p>1. The participation of numerous beneficiaries may present an environment conducive to F&amp;C.</p>  | <p>2. Strict eligibility criteria for beneficiaries are already in place in the Operating Rules of the Program. The Project will be annually audited by an acceptable audit firm, in accordance with terms of reference acceptable to the Bank.</p>  |                     |             |           |           |             |
|   | Resp: Both   | Status: In Progress | Stage: Both | Recurrent | Due Date: | Frequency : |
| <p>3. Project Risks</p>   |  |                     |             |           |           |             |
| <p><b>3.1 Design</b></p>  | Rating   | High                |             |           |           |             |
| <p>Risk Description:</p> <p>1. There is the risk that the coordination of PROSPERA with productivity programs is not institutionalized and depends mainly on political will. Additionally, there is the risk that even if linking does happen, it is with programs that do not foster productivity of beneficiaries or that cannot respond to the needs of PROSPERA beneficiaries.</p> <p>Additionally, it is possible that the tools and methodologies designed under the components, especially the Unique Registry of beneficiaries and the Social Information System, will not be used by social and productive programs.</p> <p>The Project includes a large component of technical assistance to be implemented over a relatively limited period of time (4 years), including the procurement of IT systems that can be subject to specific national legislation requirements. Moreover technical assistance is spread across a number of different activities, which will require a diverse profile of staff</p> | <p><b>Risk Management:</b></p> <p>1. The Program Operating Rules and 29 other programs have been changed to foster participation for social and productive inclusion of the poorest, highlighting the need for inclusion of conditional support Program beneficiaries. Agreements for cooperation, as well as institutional structure and subcommittees at the regional and local levels are being established to foster coordination for this purpose. The Bank team will provide technical assistance to strengthen these actions and to develop, implement and evaluate an effective coordination model. It will also be working with the Finance Ministry (SHCP) and evaluating agencies (CONEVAL) to facilitate that the coordination happens with those programs that have a proven impact in the productivity and labor inclusion of the PROSPERA beneficiaries and promote the allocation of resources based on results and effectiveness of programs.</p> <p>The Bank team is working closely with SEDESOL, providing support to the design, advocacy and implementation of a Unique Registry of beneficiaries and a Social Information System. The Bank will provide technical assistance to the development of protocols of exchange of information and its strategic communication. To ensure close follow up and support the use of the registry and the SIS will be included as indicators in programs' results framework matrixes.</p> <p>The diverse technical assistance provided by this Project is the instrument through which the Bank will support PROSPERA and SEDESOL in their ambitious reforms and through which the Bank will ensure its participation in the dialogue on the reform of social protection in Mexico. The Bank team will be working closely with both the PROSPERA and SEDESOL teams during supervision to facilitate the programming and implementation of technical assistance activities. The Bank team will also rely on special experts as needed to facilitate the preparation of terms of references and the supervision of key consultancies, such as the one related to the information system and registry of beneficiaries. Preparation of some critical terms of references has started even during Project preparation to ensure smooth implementation.</p> |                     |             |           |           |             |



|   |  |                     |                    |            |           |             |
|---|--|---------------------|--------------------|------------|-----------|-------------|
| <p>to be able to supervise it adequately.</p> <p>2. Programs might not be providing the information needed, or of the quality required to be used by the social information system.</p> <p>3. The Project is complex as it entails a complicated process of flow of funds and information between a number of entities including SEDESOL, CNP, BANSEFI, and other payment channels.</p> | Resp: Both   | Status: In Progress | Stage: Both        | Recurrent: | Due Date: | Frequency : |
|   | <b>Risk Management:</b>  |                     |                    |            |           |             |
|   | 2. The TA provided under the Project will ensure that agreements with the CNCH programs on data sharing will contain detailed information regarding standard of quality, frequency, formatting of data to be shared and the development of a tool to validate the quality of the information contained in the different databases.         |                     |                    |            |           |             |
|   | Resp: Both   | Status: In Progress | Stage: Both        | Recurrent: | Due Date: | Frequency : |
| <p>3. The Project is complex as it entails a complicated process of flow of funds and information between a number of entities including SEDESOL, CNP, BANSEFI, and other payment channels.</p>   | <b>Risk Management:</b>  |                     |                    |            |           |             |
|   | 3. The Project will extensively use Country's systems which include well defined and controlled payment and information mechanisms that will continue to be supervised by the Bank's team, along with various mitigating measures which include the Project's annual audit based on specific terms of reference, and periodic supervision. |                     |                    |            |           |             |
|   | Resp: Both   | Status: In Progress | Stage: Both        | Recurrent: | Due Date: | Frequency : |
|   |  |                     |                    |            |           |             |
| <b>3.2 Social and Environmental</b>   | Rating   | Moderate            |                    |            |           |             |
| <p>Risk Description:</p> <p>Incomplete implementation of IPP, especially as it relates to actions under the responsibility of sectorial Ministries and not SEDESOL itself.</p>  | <b>Risk Management:</b>  |                     |                    |            |           |             |
|   | The Project will provide close follow up to the implementation of the IPP and the World Bank will ensure its implementation regularly as part of supervision mission. A social development specialist is an integral part of the team and will work with the Government in the implementation of the IPP.                                  |                     |                    |            |           |             |
|   | Resp: Client   | Status: In Progress | Stage: Preparation | Recurrent: | Due Date: | Frequency : |
| <b>3.3 Program and Donor</b>  | Rating   | Low                 |                    |            |           |             |
| <p>Risk Description:</p> <p>The IDB is also financing PROSPERA through an investment loan approved in October 2013 with a risk of conflicting</p>   | <b>Risk Management:</b>  |                     |                    |            |           |             |
|   | The overlap in terms of areas of intervention has been minimized at preparation. The team has coordinated closely with the IDB during the design of its investment loan to PROSPERA and in the preparation of this Project. The Bank team will continue to work closely with IDB colleagues to ensure                                      |                     |                    |            |           |             |

|   |   |                            |                    |                   |                  |                    |
|---|---|----------------------------|--------------------|-------------------|------------------|--------------------|
| <p>technical and policy advice on some aspects of the PROSPERA Program.</p>   | <p>coordination and avoid contradictory messages coming from the two Banks on program reforms and evaluation agenda. Regular audio and video conferences will be organized to ensure effective and consistent collaboration.</p>  |                            |                    |                   |                  |                    |
| <p><b>3.4 Delivery Monitoring and Sustainability</b></p>  | <p>Rating</p>   | <p>Moderate</p>            |                    |                   |                  |                    |
| <p><b>Risk Description:</b><br/>The objectives of the new approach are more ambitious and extend beyond areas traditionally monitored and evaluated by PROSPERA and SEDESOL and will require additional investments in M&amp;E.</p>   | <p><b>Risk Management:</b><br/>The monitoring of Project results will be aligned to existing mechanisms for reporting results. Once new indicators to track are established, the Project will support improvements in the M&amp;E of the program, the risk of poor reporting is low given the existing M&amp;E is strong and that further improvements will be supported under the Project.</p> |                            |                    |                   |                  |                    |
|   | <p>Resp: Both</p>   | <p>Status: In Progress</p> | <p>Stage: Both</p> | <p>Recurrent:</p> | <p>Due Date:</p> | <p>Frequency :</p> |
| <p><b>Overall Risk</b></p>  |   |                            |                    |                   |                  |                    |
| <p><b>Overall Implementation Risk:</b></p>  | <p><b>Substantial</b></p>   |                            |                    |                   |                  |                    |
| <p><b>Risk Description:</b></p>   |   |                            |                    |                   |                  |                    |
| <p>The overall rating for the Project implementation is Substantial due to the innovative design of the Project, the number of stakeholders involved in implementation, the complexity of engaging two implementing agencies, one of which has never implemented a World Bank financed Project, and the large technical assistance component.</p> |   |                            |                    |                   |                  |                    |

**Annex 5: Implementation Support Plan**  
**MEXICO: Social Protection System Project**

**Strategy and Approach for Implementation Support**

1. The innovative approach of the operation, the engagement with two implementing agencies and a large component of technical assistance will require intensive implementation support particularly in the initial stages of the Project. The team composition and the expected time allocation are described in Table A5.1. The implementation support proposed focuses on implementing the risk mitigation measures defined in the Operational Risk Assessment Framework, specifically:

- i. **Coordination:** The core team will closely monitor Project implementation to promote coordination, and detect possible lack of communication, duplication of efforts, and delays in implementation. Moreover, the team will strive to maximize the benefits of the Bank's involvement in other sectors and periodically convene stakeholders.
- ii. **Financial Management:** During implementation support, the Bank's financial management specialist will support the implementing agencies (including with ad hoc training), and routinely review the Project's financial management capacity, including but not limited to accounting, reporting, and internal controls to ensure that they are satisfactory to the Bank.
- iii. **Procurement:** The Bank's procurement specialist will work closely with the implementing agencies to build capacity and support them in the periodic procurement activities.

**Implementation Support Plan**

2. Key Bank team members involved in implementation support will be based in Washington DC and in the Mexico Country Office to ensure timely, efficient, and effective implementation support. The core team is expected to conduct four formal implementation support missions during the first year of implementation, including field visits. After the first year, the periodicity of the implementation support missions is expected to be reduced to two missions a year, and maintained throughout the Project. Detailed inputs from the Bank team are outlined below.

- i. **Technical Inputs.** (i) technical experts and professionals to support the elaboration of TORs (consultant and non-consultant services); (ii) field visits to follow implementation of the planned operational enhancements; (iii) technical assistance to the information systems components; and (iv) the organization of technical workshops to share best practices and support the evaluation agenda.
- ii. **Fiduciary Requirements.** During preparation, the Bank team identified capacity-building needs to strengthen financial management capacity and improve procurement management in the context of World Bank operations. Support will be provided from the World Bank office in Mexico. Formal implementation support of financial management

reports and procurement will be carried out semiannually, while prior review will be carried out for contracts specified in the Procurement Plan (PP) as required.

- iii. **Safeguards.** During implementation the Social Specialist will closely monitor the implementation of the Indigenous People Plan.

3. The Project will require the following implementation support in the first year. The Implementation support Plan will be revised after the first year of implementation:

**Table A5.1: Required Project Supervision**

| <i>Skills Needed</i>                                | <i>Number of Staff Weeks</i> | <i>Number of Trips</i> | <i>Comments</i>   |
|---|------------------------------|------------------------|---|
| Senior Economist (TTL)                              | 14                           | 4                      | Sr. Social Protection Specialist will oversee entire operation and supervise technical and fiduciary aspects.   |
| Senior Social Protection Specialist                 | 10                           | 4                      | Sr. Social Protection Specialist will provide implementation guidance for the Project and be responsible for the evaluation agenda and the regional social development strategy |
| Senior/Lead Economist                               | 8                            | 2-3                    | Sr./Lead Economist will provide overall implementation support.   |
| Senior Information Systems Specialists (consultant) | 6                            | 4                      | Specialists will be responsible for the technical assistance to the design and implementation for the information systems in Components 2 and 3                                 |
| Systems Specialist                                  | 6                            | 3                      | Specialists will be responsible for the technical assistance to the design and implementation for the information systems in Components 2 and 3                                 |
| Social Protection Specialist                        | 10                           | 3                      | Social Protection Specialist will provide overall implementation support  |
| Junior Professional Associate                       | 12                           | 0                      | JPA will provide overall in-country implementation support  |
| Senior Procurement Specialist                       | 6                            | 0                      | Procurement specialist will support the implementing agencies on related issues.  |
| Senior Financial Management Specialist              | 6                            | 1                      | FM specialist will support the implementing agencies on related issues.   |
| Safeguards Specialist                               | 4                            | 2                      | Safeguards specialist will ensure good implementation of the IPP  |

## **Annex 6: Economic and Financial Analysis**

### **MEXICO Social Protection System Project**

1. **This Annex presents the economic and financial analysis of the Project.** The analysis presented aims to respond to three specific questions: (i) *What is the Project's expected development impact?* (ii) *Is public sector provision or financing the appropriate vehicle?* and (iii) *What is the World Bank's value added?*

2. **A section is dedicated to each of these questions.** Section I outlines the economic rationale for conditional support programs, with details on PROSPERA's budget, coverage, targeting, impact and efficiency of spending. The section also presents the expected additional benefits deriving from linking beneficiaries to social and productive activities.<sup>58</sup> Section II gives the rationale for public involvement while Section III examines World Bank's contribution to the Project. It seeks to determine the benefit from Bank staff involvement and whether the proposed Project maximizes the development impact of staff effort. This latter point is particularly important in the context of a project supporting Mexico's flagship program with a long history and strong track-record of implementation as well as the support to the development of key working instruments of an effective social protection system.

#### **I. Expected Development Impact**

##### ***Impact of PROSPERA***

3. **The Project is expected to directly benefit approximately 6 million poor households in Mexico (about 26 million people) enrolled in PROSPERA, who will be receiving non-reimbursable contributions.** Expected benefits include, but are not limited to: (i) increased household consumption, (ii) increased school enrollment, attendance and completion, (iii) improved health prevention/access to health, (iv) improved nutrition, and (v) improved access to services that facilitate productive inclusion in the labor market.

4. **Several evaluations and reviews<sup>59</sup> have demonstrated the impact of safety nets programs on poverty reduction and human development outcomes.** For PROSPERA, extensive qualitative and quantitative data have been collected since the program first started in 1997. The body of evidence shows significant positive impacts of the Program on household consumption, school enrollment and attendance, health prevention/access to health and nutrition – all of which are a part of the Project's development objectives. The 2007-2008 evaluation agenda for the first time focused on the quality of services (health, education, and National Coordination) and the identification of the effects of PROSPERA in rural areas after 10 years of intervention (Box A6.1).<sup>60</sup>

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<sup>58</sup> Given the limitations in quantifying many of the benefits in monetary terms, and the limited evidence base available, a full-fledged cost-benefit or cost-effectiveness analysis is not conducted here. Instead, this Annex will make explicit the theory of change behind such an approach and indirectly assess the cost and benefits of making the Program more efficient/effective through activities supported by this Project.

<sup>59</sup> e.g. IEG, 2011; Grosh et al., 2008.

<sup>60</sup> *Documento compilatorio Evaluaciones Externas* 2008.

**Box A6.1: Conditional Support Program- Impact Evaluation and Key Results**

Extensive qualitative and quantitative data have been collected since PROSPERA started in 1997. The most recent surveys were 2007 for rural areas and 2009 for urban areas. The key results are summarized.

In the area of education:

- Important increases in the grades of schooling achieved for both young male and female adults (0.85 and 0.65 additional years respectively, for female and male beneficiaries between ages of 17-22).
- Significant and positive impacts on indigenous people, as high as/ or higher than for non-indigenous youth (0.64 (women), 0.84 (men) additional years).
- Some encouraging positive tendencies in achievement (Increase of 10 percent in the scores on the Woodcock-Johnson exams in mathematics for men and women between 19 and 22 years) – though lag in outcomes persistent and possibly tied to quality of services.
- Quality of education services are strongly correlated with education gaps. Controlling for variables of context, there is no difference between test scores of PROSPERA students and other students.
- Schools attended by PROSPERA students are disadvantaged in their access to important inputs and services.
- The greatest impact of the program on social mobility comes through education (about 7.4% of mobility is explained by education incentivized through the Program).

In the area of health:

- Increased use of health services (especially preventive)
- Increases in prenatal care, less likelihood of adolescents to engage in risky behavior, and reductions in obesity and chronic illness among Program participants.
- Increases in both overall and food consumption, sustained over time.
- In the case of nutrition, reduction by 22.2 percentage points in the prevalence of stunting and by 11.8 percentage points in the prevalence of anemia in children below the age of two.
- Also, reduction by 5.4 (urban areas) and 14.2 (rural areas) percentage points in the prevalence of anemia in pregnant women between 17 and 22 years.

Overall:

- Greatest changes in health and education could be observed in women and indigenous population
- Longer permanence in the Program was associated with better health and education outcomes
- The Program still faces significant challenges in reaching its objective of breaking with the intergenerational cycle of poverty. Nutrition, health, education and job insertion indicators for the target population still lag significantly behind
- Program implementation and services have improved over time despite the significant expansion in coverage, largely through operational innovations that improved knowledge of the Program among beneficiaries.
- Upward social mobility is higher for migrants demonstrating the challenges of breaking the inter-generational transmission of poverty when the resident localities are economically depressed

**5. The findings on quality of services, social mobility, and the challenges of breaking out of the poverty cycle for households despite long permanence in the program were important inputs for the new phase of the program** with the objective of increasing access to services that facilitate productive inclusion in the labor market. Evidence has shown that conditional support families already use some of the non-reimbursable contributions they receive to invest in productive entrepreneurial activities that raise their living standards in the long run. A recent study showed that PROSPERA beneficiaries invested about 12 percent of their

transfers, raising consumption by about a third after five and a half years in the program.<sup>61</sup> The analysis of past experience suggests that greater coordination between PROSPERA and other national, state and local programs offering complementary services would help create conditions for the economic development that would support these efforts to break the poverty cycle in what are often much marginalized areas in which the Program operates. This coordination would improve the access of PROSPERA beneficiaries to services such as training, credit, or additional social services that can facilitate their productive inclusion in the labor market. Attempts at this coordination have already been made in Mexico, with some evidence on potential for impact, as described briefly in Box A6.2.

**Box A6.2: PROSPERA and experiences with coordination– expected benefits**

As part of a regional review of inter-sectoral coordination mechanisms that CS programs are using to improve the quality of the services received by beneficiaries as well as to be able to refer them to other services that would increase their self-sufficiency, the Bank supported: (a) a review of the experience of PROSPERA in coordinating with other national programs; and (b) a process evaluation of state level inter-sectoral coordination models in two states in Mexico (Guanajuato and San Luis Potosi). The evaluations of these experiences highlighted the expected benefits of implementing the articulation model:

| Stakeholders                       | Expected benefits of the coordination model   |
|------------------------------------|---|
| <b>PROSPERA Program</b>            | Broadens benefits and services for its target population, reinforcing its health, education and nutrition intervention with complementary actions through housing, income generation and environment. This becomes even more important with the recent shift in focus of the program towards promoting greater social and productive inclusion of its beneficiaries |
| <b>State and Local Governments</b> | Thanks to the collaboration with PROSPERA, availability of additional tools to increase the effectiveness of social spending, such as improved targeting, territorial presence, establishment of a specific work plan to reach remote beneficiaries, etc.   |
| <b>PROSPERA beneficiaries</b>      | Receive complementary support to fulfill their social rights, with additional benefits in terms of strengthened human capital and relationships with local authorities.   |

Source: outputs of Non Lending Technical Assistance: Improvements in Conditional Support Programs Governance (P125712)

6. **By supporting Government’s efforts to link beneficiaries to additional social and productive programs, the Project is expected to increase the effectiveness of PROSPERA in raising income and consumption and reducing poverty of beneficiary households.** Ultimately, the ability to achieve this impact – and the soundness of the approach – depends partially on the effectiveness of existing social and productive programs in reaching their goals. Table A6.1 summarizes some Mexican and international evidence regarding the impact of programs aimed at increasing productive inclusion of low income beneficiaries. Programs were chosen based on existence of impact evaluations and on similarities with PROSPERA (such as in terms of target population, objectives and modes of implementation). These programs are

<sup>61</sup> Gertler, Martinez and Rubio-Codino Investing Cash Transfers to Raise Long-Term Living Standards (2012) *American Economic Journal: Applied Economics* 2012, 4(1): 1–32

divided into two groups: (i) Rural productivity and entrepreneurship, and (ii) Training and labor market insertion programs.

**Table A6.1: Selected Impact Evaluation Results, productive services for the poor**

| Program name  | Details  | Impact   |
|---|--|--|
| <b>Rural Productivity and Entrepreneurship</b>  |  |  |
| México – SAGARPA /PESA  | Poor households, rural areas   | 14% increase in income of beneficiary households<br>25% increase in probability of selling agricultural products<br>63% increase in probability of household saving and 13% increase in probability of seeking credit  |
| Colombia - <i>Jóvenes Rurales Emprendedores</i>   | Unemployed youth, rural areas (16-25 years)  | 13/14% greater probability of obtaining employment<br>Positive impact on hourly wage (almost 50% greater)<br>Probability of starting a business increased 75-88%   |
| <b>Training and labor market insertion programs</b>   |  |  |
| México - <i>Programa Apoyo al Empleo (diferentes modalidades)</i>   | Unemployed or underemployed, youth (16-29) and adults  | 11% and 4% average increase in probability of employment (after 13 and 26 weeks respectively) – but variations by modality   |
| Colombia - <i>Jóvenes en Acción (2002-2006)</i>   | 3 month training + 3 month internship<br>Youth 18-25 years, low income   | Increases in wages, particularly strong for women (+18%)   |
| <b>All</b>  |  |  |
| Meta-analysis of 37 impact-evaluations of different entrepreneurship programs (including training, ALMP, credit, etc) across 25 countries (of which 28% in LAC) | Programs mostly targeted to women, youth, microcredit clients, social assistance beneficiaries, and existing business owners | Overall, entrepreneurship programs have a positive and large impact for youth and on business knowledge and practice, but no immediate effect into business set-up and expansion or increased income. <ul style="list-style-type: none"> <li>• Combination of training and financing is more effective for labor activities, while financing support appears more effective for women and training for existing entrepreneurs</li> <li>• Involving the private sector in program delivery can enhance the effectiveness</li> </ul> |

Sources: CEPAL, *Evaluación Impacto PESA* (2011), Attanasio, Kugler, Meghir (2011), Attanasio et al, 2009; FEDESARROLLO (2010), van Gameraen (2010), Cho and Honorati (2014)

**7. Ensuring increases in income and productivity of beneficiaries is beyond the control of PROSPERA and beyond scope of the Project.** In the short-run, facilitating access of PROSPERA beneficiaries to an integrated set of complementary services is the key objective, with the expectation that – over time – participation in these programs will contribute to their improved socio-economic welfare.



## Cost and fiscal sustainability

8. Since the Mexican Government first introduced PROSPERA, social assistance spending in Mexico has increased significantly, and so has its efficiency. PROSPERA's budget has been increasing in line with the expansion of the Program's coverage and represents today close to 0.5 percent of GDP. This expansion has been gradual, to ensure budgetary feasibility. The largest share of Program cost goes to non-reimbursable contributions to beneficiaries, and is directly linked to Program's objectives. The Program continues to be financially sustainable.

**Table A6.2. Program budget, US Billions (2009-2014)**

| PROSPERA Budget                   | 2009 | 2010 | 2011 | 2012 | 2013 | 2014* (planned) |
|-----------------------------------|------|------|------|------|------|-----------------|
| Total, US Billions                | 1.73 | -    | 2.69 | 2.56 | 2.71 | 2.96            |
| Conditional Support*, US billions | 1.64 | 2.28 | 2.49 | 2.35 | 2.52 | -               |

\*Excludes non-reimbursable contributions paid by SEP/CONAFE

**Table A6.3. Coverage of PROSPERA(2009-2013)**

|             | 2009       | 2010       | 2011       | 2012       | 2013       |
|-------------|------------|------------|------------|------------|------------|
| Families    | 5,209,359  | 5,818,954  | 5,827,318  | 5,845,056  | 5,922,246  |
| Individuals | 23,565,952 | 26,012,418 | 25,701,574 | 25,631,340 | 25,718,586 |

9. The most recent cost-effectiveness analysis for PROSPERA<sup>62</sup> was done monetizing the results of impact evaluations of the program in rural areas, but was limited to returns to schooling. The analysis compares costs with the benefits derived from education, valuing the benefits in the form of increased future earnings that result from additional years in school. In addition to the costs of the program, the cost analysis also takes into account opportunity costs and expenditures associated with participation such as transportation, etc. These simulations show mostly positive results, with positive cost/benefit ratios ranging from 1.4 – 7.1, using a 10 percent discount rate. These results can be considered a lower bound of the expected benefits since they do not consider the impacts on health and nutrition (or on consumption more generally). Since the Project will provide US\$301.525 million under the PROSPERA conditional support component (Sub-Component 1.1), the cost effectiveness considerations build directly on the existing evidence available for the program and are positive given that the costs of the Program are more than offset by the value of its benefits.

10. The remaining US\$47.6 million will be directed to the technical assistance components (Sub-Component 1.2 and 1.3, and Component 2), whose main objective is to strengthen PROSPERA capacity to increase access of its beneficiaries to existing social productive services (US\$16 million) and strengthen SEDESOL's capacity for coordination,

<sup>62</sup> Parker, S., Behrman, J. (2008) "Seguimiento de adultos jóvenes en hogares incorporados desde 1998 a Oportunidades: Impactos en educación, pruebas de desempeño"

increasing the efficiency and effectiveness of social spending as a whole (US\$31.6 million). Data on the cost of such interventions is limited and hard to estimate. It can be argued that initial “set-up” costs of coordination, such as the harmonization of systems and the establishment of agreements with other programs (as well as the indicators to monitor them) are expected to be large, but with very limited ongoing cost. In particular, for Component 1, given that the US\$11 million TA represents less than 0.2 percent of annual total Program spending, if it contributes to operational improvements that increase program effectiveness even by a very small amount, the impact on the Program as a whole would be very large with a very small investment cost. A similar argument applies for Component 2, where the large initial set up cost of the SIS (US\$25 million) constitutes only 0.1% of SEDESOL’s budget over four years, with limited ongoing cost and significant expected savings in terms of reduction of duplications and increased effectiveness of spending.

## **II. Rationale for public sector provision**

11. **The public sector should be involved in the provision of safety nets and, more generally, social protection primarily on the grounds of equity.** Social safety nets are non-contributory transfer programs seeking to prevent the poor or those vulnerable to shocks and poverty from falling below a certain poverty level. Public interventions to reduce poverty can be justified on ethical and political grounds. Because any solution achieved through the market depends on the initial distribution of resources, a case can be made for the public provision of goods (*and services*) that the poor consume more than the non-poor on grounds of redistribution. Moreover, non-reimbursable contributions also alleviate constraints on individuals to invest in their human capital, incentivize the use of existing public services and increase educational and health outcomes for beneficiaries. These, in turn, have high externalities, providing another justification for public provision. Improving efficiency and effectiveness of social spending is critical for the public sector. Investing in key instruments that increase efficiency and effectiveness of social spending like the development and implementation of planning and monitoring tools such as the Unique Registry of Beneficiaries and a Social Information System constitute important public goods with high externalities in the context of poverty reduction strategies.

## **III. World Bank value added**

12. The Mexican Government is in the process of revamping its social programs to increase their effectiveness as a vehicle towards achieving shared prosperity. PROSPERA is a large, well-functioning Government program that has been supporting the poor for over 15 years. It is now looking at how to further improve its design and integration with other social and productive programs that can help support the full inclusion of beneficiaries and their transition into the labor market. The value added of Bank support comes from the Bank’s international experience with CS programs, employability programs, and designing the elements of a fully-fledged social protection system that protects the vulnerable while building the elements for a competitive economy. The Project will strengthen SEDESOL capacity to better plan and implement social and productive programs in support to the population, similarly to the case of other ministry of

social development in the region that have been supported by the World Bank in different operations (i.e. Peru MIDIS, Brazil MSD).